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Alternative to private finance of the welfare state

A global analysis of Social Impact Bond, Pay-for-Success and Development Impact Bond projects

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AUSTRALIAN WORKPLACE INNOVATION AND SOCIAL RESEARCH CENTRE

THE UNIVERSITY of ADELAIDE

European Services Strategy Unit

(Continuing the work of the Centre for Public Services)

Alternative to Private Finance of the Welfare State:

A global analysis of Social Impact Bond, Pay-for-Success and Development Impact Bond projects

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Abbreviations

AFSCME	American Federation of State, County and Municipal Employees
ALMO	Arms Length Management Organisation
AEI	American Enterprise Institute
CEO	Center for Employment Opportunities
CPC	Child Parent Center
CPS	Chicago Public Schools
CRA	Community Reinvestment Act
CSR	Corporate Social Responsibility
CUPE	Canadian Union of Public Employees
DFID	Department for International Development
DIB	Development Impact Bond
EFSI	European Fund for Strategic Investment
EPSN	European Social Policy Network
ESSU	European Services Strategy Unit
EU	European Union
FTE	Full Time Equivalent
GDP	Gross Domestic Product
G8	Group of eight countries
G20	Group of twenty countries
IEG	Independent Evaluation Group (World Bank)
IMF	International Monetary Fund
IFC	International Finance Corporation
ISDS	Investor-State Dispute Settlement
LATC	Local Authority Trading Company
MDG	Millennium Development Goals
NAO	National Audit Office
NCIA	National Coalition for Independent Action
NHS	National Health Service
NSW	New South Wales
NUPGE	National Union of Public and General Employees
NVQ	National Vocational Qualification
OECD	Organisation for Economic and Cooperative Development
ONS	Office for National Statistics
P4P	Payment-for-Performance
PbR	Payment-by-Results
PFI	Private Finance Initiative
PFS	Pay-For-Success
P4R	Programme for Results
PPP	Public Private Partnership
PSIIP	Public Service Innovation and Improvement Plans
SBB	Social Benefit Bond
SIB	Social Impact Bond
SDG	Sustainable Development Goal
SPC	Special Purpose Company
SRI	Socially Responsible Investment
TISA	Trade In Services Agreement
TPP	Trans-Pacific Partnership
TTIP	Trans-Atlantic Trade and Investment Partnership
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
VSG	Voluntary Service Groups
WEF	World Economic Forum

Key Findings at a glance

Private finance

Social impact bond projects are the latest new 'buy-now, pay later', off-balance sheet schemes to increase private finance of public services and the welfare state, driven by austerity policies and neoliberal ideology.

They are a complex venture capitalist model applied to the provision of social services, health, education and other public services. Private investors provide working capital to social impact bond projects with the expectation of an annual rate of return or profit of 15% - 30% or more, dependent on the achievement of specified outcomes.

Early intervention/development and prevention are only part of a strategy to tackle the root causes of poverty and inequality. However, social impact bonds and pay-for-success are designed to deliver selective social outcomes.

The social impact bond project lobby embrace neoliberalism and a 'government failure' model to justify their approach, but they are in denial of market failure and the cause of the global financial crisis.

The social impact bond project lobby is, however, happy to accept public money in the form of tax breaks, grants, subsidies and guarantees to extend corporate welfare. Nearly £520m of UK public money has been given to social enterprises and social impact bond projects in recent years in the form of grants and financial support.

International bodies have advanced the case for social impact bonds projects - the G8 group of countries established a Social Impact Investment Taskforce, the Organisation for Economic Development and Cooperation (OECD) and World Economic Forum (2013) extolling their virtues.

Global banks such as Bank of America Merrill Lynch, Goldman Sachs, JP Morgan Chase and Co. and Morgan Stanley, have played a key role in promoting and funding social impact bond projects in anticipation of attracting wider private investor interest and a new 'asset class'.

There are currently 54 operational social impact bond projects in 13 countries with at least a further 23 at the planning or procurement stage. The UK is the global leader with 32 operational projects with outcome payments valued at £91m, followed by the US with 9 projects.

Economic and social flaws

The level of innovation is exaggerated. Private investors will fund projects that use proven evidence-based methods to minimize risk. The organisational structure of social impact bond projects is more innovative than the services they deliver and the methods they use to achieve outcomes, but nevertheless has basic flaws and negative consequences.

Social impact bonds are a development in the mutation of privatisation.

No attempt is made to compare the social impact project with other innovative and improved public services. This has a double effect of excluding in-house public service delivery and virtually guarantees the project will show some improvement (and financial return) because it is applying proven techniques.

Social impact bond projects increase the financialising of public services with private investors providing operating capital and whilst outcomes are monetised by agreeing a fixed sum of money for each outcome.

The model is built on claims of public expenditure savings similar to those made for outsourcing and privatisation. They are

frequently exaggerated and often fail to meet targets.

Payment-by-Results is a fundamental part of social impact bond projects and has been more widely used in government contracts in several countries and by the World Bank. The UK's Troubled Families PbR contracts achieved 100% performance even in major industrial cities and assumed the turn around in people's lives was permanent!

Further, their structure outside of the public sector, results in the outsourcing of commissioning functions, such as monitoring and evaluation, and service delivery. They increase the rate of commodification, marketisation and privatisation processes.

Democratic accountability and transparency is absent from the case studies and documents promoting social impact bonds.

There are few references to jobs, terms and conditions for staff either displaced by, or employed in, organisations delivering social impact bond projects. With non-profit average wages 20% - 30% less than the national average wage, let alone the equivalent public sector wage in many industrialised countries, wider use of temporary staff, fewer in pension schemes, lower trade union membership, social impact bond projects will have a significantly negative effect on employment and economic well being.

Participation of service users and staff has been tokenistic with emphasis on stakeholder engagement limited to private investors, intermediary organisations and contractors.

Development impact bonds

Advocates of development impact bonds in the global south make the same claims about 'government failure', citing poor targeting of resources, inadequate incentives to focus on outcomes, limited innovation, short-term funding and insufficient evidence to support decision-making, whilst ignoring the historic role of private companies and market failures.

Development impact bonds have similar objectives, organisation and operating methods as social impact bonds, but they are currently funded by aid agencies and/or foundations rather than private investors. However, they have the same basic flaws.

Alternative strategy

A four-part strategy is required: 1) An alternative vision of public services that provide early intervention and prevention, good quality integrated core services and multi purpose use of public buildings; 2) Public Service Innovation and Improvement Plans at departmental or service level; 3) An agreement not to propose or approve social and development impact bond/pay-for-success projects; 4) Action strategies to build alliances of staff/trade unions, service users/community organisations and other campaigns to organise support for strategies and scope for transnational action.

TABLE 1: 30 NEGATIVE ELEMENTS OF SOCIAL IMPACT BOND PROJECTS

Investors select social needs that are profitable, but ignore needs that are not.	Address the symptoms, but not the causes of poverty and inequality.
Privatise the design, finance, service delivery, contract management, monitoring and evaluation of projects.	Extend markets and market forces further into the welfare state that could ultimately threaten social rights.
Monetize the value of outcomes by agreeing a sum of money for each outcome.	Private and institutional investors will increasingly replace 'social investors'.
Make social need dependent on private markets and decrease publicly provided services.	Democratic accountability, participation and transparency are eroded by the contract culture.
Blur important distinctions between public, non-profit and private provision of public services.	Risks are borne by government, service users, staff and contractors, not just private investors.
Commodification and monetising early intervention and prevention will have a negative impact for women in social reproduction, in training and employment and will intensify gender inequality.	Creates a new source of accumulation for private investors in public services with annual rate of return of up to 15% - 30% or more.
Employees have private/non-profit sector terms and conditions, less job security and trade union representation.	Performance-based contracts lead to commercialisation of non-profit and voluntary sector organisations.
Private finance, alternative providers, making markets, competition, privatisation, deregulation and public grants and subsidies are the components of neoliberal public management.	A secondary market is likely to emerge to trade in social impact bond investments that could be transferred to offshore tax havens following the PFI/PPP model.
Do not deliver additional resources, as public sector has to repay private/social investors with profit.	Banks and financial institutions will increase their power to shape public policies.
Project organisation is a neoliberal innovation, but services are rarely innovative - they apply proven methods to new population groups.	High set-up or transaction costs including a coterie of consultants, financial advisers, lawyers and evaluators.
Lack of evidence of savings in public spending, which are only valid if the full public cost of reconfiguring public services and infrastructure legacy costs are included.	Early intervention and prevention should be part of public sector initiatives and integrated with core services.
Exclusive focus on outcomes despite inputs, processes (and outputs in some cases) having a direct effect on the quality of public services.	Claims of 'social or public value' or 'public benefit' are vague, are not meaningful and conceal class interests.
The comparison of outcomes with unimproved public service provision is fundamentally flawed and designed to exaggerate the effect of social impact bonds.	Impose a new set of power relations between private investors, intermediary organisation, contractors, consultants, evaluator and the government or public body.
Exploit the most vulnerable, poorest and others dependent on public services and the welfare state.	Deliberately exclude and deny there are viable and more effective public sector alternatives.
Advocates make assertions about 'government failure' when market failure is the cause of financial and economic crises.	Development impact bond model threatens to impose more profiteering and privatisation in the global south.

1 PRIVATE INVESTMENT TO PRIVATISE THE WELFARE STATE

Governments increasingly seek new 'buy-now, pay later', off-balance sheet schemes to increase private finance of public services and the welfare state, driven by austerity policies and neoliberal ideology.

One such scheme is a social impact bond project (known as pay-for-success in the US, social benefit bond in Australia and development impact bond in the global south). Social and development impact bonds are similar. Private investors and/or foundations provide working capital to social impact bond projects, whereas aid agencies and/or foundations finance development impact bond projects. There are currently 54 operational social impact bond projects globally with a further 23 at the design stage. The UK is the global leader with 32 operational projects followed by the US with 9. UK project outcome payments are valued at £91m.

The social impact bond model is intended to attract 'new' private investment with a commercial rate of return, to deliver early intervention and prevention policies on a payment-by-results basis for the outcomes achieved. The model is claimed to increase innovation, because services are delivered by social enterprises and non-profit organisations managed by social entrepreneurs. It is claimed that social impact bond projects improve efficiency because projects are not burdened by bureaucracy, risk is transferred to private investors and large savings in public spending are achieved as the need for crisis interventions are reduced.

Social and development impact bonds should not be confused with bonds or fixed income securities issued by municipal, state and national governments or companies to raise capital to fund projects as an alternative to public debt or a bank loan. These bonds have a defined period with a fixed or variable interest rate. In contrast, social impact bonds are 'multi-stakeholder partnerships managed through a series of contracts' (McKinsey, 2012). The term 'social impact bond projects' is used in this study.

Social impact bond projects are a venture capital model applied to the provision of social services, health, education and other public services. Private investors provide working capital to social impact bond projects with the expectation of an annual rate of return or profit of 15% - 30% or more, dependent on the achievement of specified outcomes. Government or public bodies must allocate funds in future budgets to repay private investors and expect to obtain financial savings from a reduction in the cost of service provision. Foundations, trusts and charities have part-funded many of the early social impact bond projects in an attempt to establish the model, but they will gradually be replaced by banks and other financial institutions, such as private equity funds, pension funds and wealthy individual investors when more projects are developed.

One project was lauded as *"…an innovative way to fund promising new programs at no cost to taxpayers"* (Office of the Mayor of New York City, 2012). However, this was a unique case and the project has since been terminated, because it failed to reduce reoffending. Although social impact bond projects are branded as being innovative, most are not (see Part 4). Early intervention and prevention policies are not new. Furthermore, savings could be achieved by direct government funding and service provision. The greater the innovation, the bigger the risk, and the higher the rate of return required by private investors.

A new intermediary organisation or special purpose company is set up for each project outside of the public sector to recruit investors, appoint contractor(s), consultants and an evaluator and to manage and monitor the project. It is also the conduit by which the government or public body repays private investors. Projects (usually run for 3-5 years) have focused on employment and training for young people, reducing reoffending, support for disadvantaged families and young children, keeping children out of the care system, early childhood education and reducing homelessness. This study also draws on the experience of Payment-by-Results (PbR) in public service outsourcing contracts where payment is linked to the achievement of outcomes. PbR has a longer track record and is a critical component of social impact bond projects.

1.1 New development in the mutation of privatisation

Social impact bonds are a development in the mutation of privatisation (Whitfield, 2012b). Government and public bodies outsource a significant part of their commissioning responsibilities and the public sector has been excluded from delivering services in social impact bond projects.

Although there is limited evidence available to assess the performance of social impact bonds there is extensive evidence of the effects of the component parts of these projects, namely competition, private finance, markets, outcomes, pay-for-success, profit and commercialisation, PPPs and privatisation. These are the components of neoliberal public management, commonly used to financialise, marketise and privatise public services and the welfare state. This is the concept of the neoliberal state in which *"…the public sector will increasingly act as a facilitator of services, rather than a direct provider, with all areas of service delivery opened to competition"* (Western Australia Audit, quoted in Impact Investing Australia, 2014).

The first social impact bond project at Peterborough Prison, UK, was terminated because the government decided to privatise probation services nationally and the project failed to meet its 10% target reduction in reoffending. The New York City project failed because it did not reduce recidivism. Second-year performance of the Newpin project in New South Wales included eight cases of children returning to care, but these reversals had not been accounted for in the payment mechanism (further details on performance in Part 4).

Outcomes are the current obsession in neoliberal public management, which has switched from one fad to another over the last three decades – compulsory tendering, quasi markets, private finance, marketisation, performance targets, and now outcomes and payment by results. They too are likely to have a limited life as a result of pressure from investors to reduce the risk of larger investments. Eventually, common sense may prevail and inputs, processes, outputs and outcomes will again be considered important and jointly assessed.

Social finance organisations have targeted early intervention and prevention arguing that they are uniquely placed to operate social impact bond projects. They have adopted the classic neoliberal 'government failure' model to justify their role and have chosen to ignore the reality of market failure. Governments have been too slow to implement early intervention and prevention policies, but there is no evidence that a privatised model will be more effective as it has many negative consequences.

Despite the relatively small number of operational social impact bonds and payment-by-results contracts, they have international support (G8 group of countries and several nation states including US and UK); from global institutions (World Bank and OECD); the involvement of big banks (JP Morgan, Goldman Sachs, Bank of America Merrill Lynch) and major foundations and charities (Rockefeller).

The spread of social impact bonds is at a pivotal stage – will they fade as little more than an experiment or will they expand more rapidly with projects in more countries spanning a wider range of services?

Social impact bonds are rooted in neoliberal public sector reform, so it is important to understand their political economy and the impact and motives of their advocates to 'grow the market for welfare services'. A new generation of partnership contracts could emerge to further marketise public services. However, so-called social entrepreneurs will not only have hastened their own demise, but speeded up the privatisation of the welfare state.

1.2 Austerity accelerated neoliberalism

The global financial crisis and austerity policies created an opportunity for governments, particularly the UK, to accelerate neoliberalism in the public sector. Public expenditure cuts and severe budget constraints increased pressure to outsource, close facilities, transfer services to social enterprises, and encourage voluntary sector contracting and a social investment market. This resulted in the fragmentation of services into outsourcing contracts, arms length trading companies and social enterprises leaving under-funded in-house public services.

> *…austerity policies have resulted in a destabilised and weaker economy; the dispossession of wages, pensions, homes and services; the depoliticisation of*

> *communities as management of the economy is increasingly ceded to business interests and technocrats; disinvestment in the public infrastructure and economic development; and the attempts to disempower trade unions, community and civil society organisations (Whitfield and Spoehr, 2015).*

The new emphasis on financialising and personalising services to create new pathways for the mutation of privatisation recognised that health, education and social services could not be sold off in the same way as state owned corporations. It ensured marketisation and privatisation were permanent and not dependent on outsourcing, which could be reversed by terminating or not renewing contracts (Whitfield, 2012a and 2012b).

Austerity policies also coincided with the mainstreaming of commissioning in the public sector. Deep cuts in public spending accelerated the split between the purchaser/client and provider/contractor functions and widened the ideological and operational split between the client and in-house contractor.

1.3 Early intervention and prevention

Early intervention/development and prevention strategies have important benefits for children and adults (Allen, 2011 and Heckman, 2011).

Heckman's research (2011) concluded *"…cognitive abilities alone are not as powerful as a package of cognitive skills and social skills—defined as attentiveness, perseverance, impulse control, and sociability…….Investment in early education for disadvantaged children from birth to age 5 helps reduce the achievement gap, reduce the need for special education, increase the likelihood of healthier lifestyles, lower the crime rate, and reduce overall social costs."*

Second chance education and training opportunities for adults are important too.

Predistribution – improving the early lives of disadvantaged children - is considered much more effective than redistribution in promoting social inclusion, economic efficiency and workforce productivity (Heckman, 2013). The pace of adoption of early intervention strategies was criticised by Allen (2011), which led to recommendations to attract external investment. However, this appeared to underestimate the extent of early intervention and the financial difficulties of reconfiguring services in a period of deep public spending cuts.

> *We know Head Start saves government at least $7 for every dollar spent on it. If Goldman and Morgan Stanley have their way, we'll soon have to pay them and their clients a portion of those savings for having replaced taxpayer funding for such programs with private capital investments. Let's call it what it is: private profit crowding out a public good (Rosenman, 2014).*

Health promotion policies that promote well being enable people to live, learn, work and participate more successfully, achieve a better work-life balance and can reduce inequalities. *"The cost of illness resulting from health inequality costs the NHS well in excess of £5.5 billion per year and between £20 and £32 million in terms of lost taxes and higher welfare payments"* (NHS England, 2015). Many chronic diseases are preventable, or rates can significantly be reduced, which reduce the cost of healthcare, reduce absenteeism and health and safety risks whilst increase productivity and opportunities for workplace development (The Marmot Review, 2010).

Many other intervention initiatives have positive impacts. For example, a new analysis of the US federal Moving to Opportunity experiment in five large cities concluded that children under 13, whose families moved to a 'lower-poverty neighbourhood' using experimental vouchers, had improved college attendance rates and annual income $3,477 (31%) higher on average in a control group in their mid-twenties (Chetty et al, 2015). The programme had no effect on adult's economic outcomes. The findings suggest *"…that efforts to integrate disadvantaged families into mixed-income communities are likely to reduce the persistence of poverty across generations"* (ibid). Moving all children out of 'lower poverty neighbourhoods' would have positive outcomes such as ameliorating living conditions and increasing life opportunities, but would not address the conditions that cause low income neighbourhoods.

…early-intervention policy avoids some of the ideological minefields in current political discourse. But it reflects a troubling increase in policy interventions in poor people's lives that don't address the fact that they are poor. We target their behaviors, beliefs, nutrition, and schools and say less and less about the sources of their poverty: growing inequality, the absence of jobs, lack of affordable housing (Rose, 2012).

Early intervention and prevention are only part of a strategy to tackle the root causes of poverty and inequality. More fundamental policies are required, such as progressive taxation, economic development, good quality jobs, public investment and affordable housing. However, social impact bonds and pay-for-success projects are designed to deliver selective social outcomes and, therefore, are subject to a challenge about who does the selecting.

1.4 Reconfiguring public services and the welfare state

Public services and the welfare state need to be reconfigured to combine early intervention and preventative policies, comprehensive provision of integrated good quality core health and social care, education, criminal justice and other public services and multi-service use of the welfare state infrastructure.

Although important strides have been made by governments and public bodies to implement early intervention and prevention policies, the process has been too slow. Bureaucratic and professional conservatism often led to inertia and retention of the status quo. When innovative change was successful, application elsewhere and lessons learnt were limited. The global financial crisis and recession, and subsequent austerity policies, caused the public sector to consolidate deep spending cuts, thus making it more difficult to launch early intervention and prevention initiatives.

However, a service provision approach is limited in the extent to which it contributes towards reducing poverty and inequalities. The causes of poverty and inequality must be tackled – lack of jobs, low income, financial exploitation, overcrowded and poor living conditions, crime and violence, environmental hazards and ill health. For example, many of the UK Department for Work and Pensions social impact bonds have 'finding work for the unemployed' as a key outcome. This approach does not create jobs by adding to the total number of jobs in the economy, although it increases skills levels of the workforce. Those finding employment may move out of receipt of welfare benefits, but are replaced by another group of unemployed – the shifting sands of welfare benefit costs, with limited net gain for the economy or public expenditure unless economic growth outpaces the net effect of increases in the workforce.

Commissioning and the transfer of services to the latest 'partnership' or social enterprise model were considered to be innovative. But market forces limit innovation, with most private contractors focusing on winning contracts to build market share, minimising wages and maximising profits.

Social impact bond projects have expressed little or no interest in organising and building a political movement that is a fundamental necessity to achieve sustainable reductions in poverty and inequality. They have not advocated the involvement of service users and community organisations, staff and trade unions and have expressed little, if any, concern for employment conditions in social impact bond projects.

Social impact bond projects are claimed to make significant savings for governments, but this is heavily reliant on taking a limited range of costs into account. Selective cost analysis avoids taking account of the full transaction and reconfiguration costs. Outsourcing 'savings' rarely materialise, if at all, but the real impact is concealed by the lamentable lack of post-contract or project impact assessment, except in cases of large-scale cost overruns and private sector performance failure (Whitfield, 2007).

The growing attention for SIBs may distract from more meaningful social policy reforms. For example, reducing recidivism rates for one prison ignores the institutional policies that systematically perpetuates the mass incarceration of particular populations. Politicians may use SIBs to superficially advocate for an issue without delving deeper into long-term and systematic solutions (Princeton University, 2014).

Trade unions have been caught between maintaining the status quo in the belief that this was the most effective way to maintain terms and conditions for members, whereas being proactive could lead to job losses (the traditional jobs, terms and conditions mandate). Others often successfully advanced alternative policies and plans and built alliances, but were sometimes accused of 'doing management's job'. Industrial relations frameworks and the effect of the procurement process on jobs, terms and conditions also restricted the scope of innovation.

The exclusion of public sector alternatives is similar to outsourcing and PPP strategic partnership contracts where an options appraisal precedes the procurement process. A 'business as usual' option is adopted, which is designed to fail to ensure procurement proceeds only with external bids. The social impact bond process does not require the constructive dismissal of an in-house option, because the ideology of impact investing assumes that an in-house option does not exist.

> *Through the SIB model, investors can produce a social impact in a targeted community, reap a financial return, diversify their portfolios, and improve their public image. These benefits are part of an emerging interest in conscious capitalism, whereby corporations can both make profits and facilitate positive social changes (Princeton University, 2014).*

This statement assumes that finance capital and 'socially responsible' corporations, together with social investment organisations and philanthrocapitalism (foundations and trusts seeking a return on their investment), are able to transform public services, radically improve the life opportunities and well being of the poor, and make a market rate return on their investment.

However, there is a strong case that early intervention and prevention should not be subjected to profiteering, and that to knowingly profit from others misfortunes, personal vulnerabilities, poverty and inequalities is morally and ethically wrong.

The OECD claim that social impact bonds *"…are perhaps the most pure form of public private partnerships in this field and represent an opportunity to change the way government approaches social problems"* (OECD, 2014a). Typically, this is not supported by evidence or any reference to the track record of PPPs, strategic partnerships, commercialisation and privatisation.

Box 1: Overview of social impact bonds and pay-for-success

Social impact bonds and pay-for-success contracts seek to deliver specific outcomes to a defined population or group of service users. Each project is organised with:

- A government or public body
- A target population
- Private and/or social investors and foundations
- An intermediary organisation of company
- Private or non-profit contractors
- Consultants, advisers and lawyers
- Independent evaluator

Services are outsourced to a social investment intermediary, initially financed by private investors and/or foundations, delivered by non-profit or private contractors, advised by consultants and lawyers, performance is assessed by independent evaluators, with government or a public sector body responsible for the repayment of capital and profits to investors dependent on performance.

Social or development impact bonds should not be confused with bonds or fixed income securities issued by municipal, state and national governments or companies to raise capital to fund projects as an alternative to public debt or a bank loan. These bonds have a defined period with a fixed or variable interest rate. Social impact bonds are multi-stakeholder partnerships managed through a series of contracts (McKinsey, 2012).

Payment-by-results means that investor profits are linked to the success or failure of the project. If the project achieves all its targets then they can achieve a 15% - 30% or more rate of return (profit) per annum. If a social impact bond project fails to achieve the performance targets they will normally get the original investment back, but with reduced or no profit.

Social impact bond projects have been funded to varying degrees by foundations, charities, social investment organisations, governments or public bodies, banks, venture capital funds and private investors (see Table 4). However, global banks and impact investing organisations are likely to turn social impact bond projects into a new asset class to open up new investment opportunities for private institutional investors.

Social impact bond projects have been established to:

- Reduce reoffending
- Drug and alcohol treatment
- Social care
- Special educational needs
- Adoption of hard to place children
- Family support to reduce children in care
- Improve employability of migrants
- Help patients manage long-term conditions
- Adult mental health
- Improve early childhood education
- Reduce out-of home foster care placement
- Support for single mothers and children
- Support disadvantaged young people into education or work
- Reduce homelessness

Why some governments support social impact bonds

Social impact bonds are another manifestation of neoliberalism, which promotes free trade, competition and markets to allocate resources and deliver services; deregulate to create new opportunities for accumulation; reconfigure the state to reduce its role in the economy; and reduce the cost and power of labour. Motives include:

- Cost savings;
- Deferred payment for service provision – 'buy now, pay later';
- An additional method of marketising and privatising public services;
- Transfer operational responsibility for service delivery;
- Relinquish responsibility for employing staff and industrial relations;
- Public relations advantage by claiming innovation.

In practice they mean new risks for government, public costs, plus wider economic, employment, social and equality impacts. UK social impact bonds are regulated by the Financial Conduct Authority, although this is not evident from their website.

See Table 1 for a summary of the negative effects of social impact bond and pay-for-success projects.

1.5 The emergence of social impact bonds

A New Zealand agricultural economist, Ronnie Horesh, first proposed Social Policy Bonds in 1988, followed by an article in Economic Affairs, a journal of the right wing Institute of Economic Affairs (Horesh, 1988 and 2000). His concept of Social Policy Bonds *"…would be issued by local or national government and auctioned to the highest bidders. Government would undertake to redeem these bonds for a fixed sum only when a specified social objective has been achieved. The bonds would be freely tradable after issue, and their market value would rise and fall"* (Horesh, 2000). Significantly, government would initially suffer a financial loss on the initial sale and redemption of bonds, but would obtain financial and social benefits once the objectives are achieved. The original target areas were the same as the current scope of social impact bond projects.

Horesh (2015) is now critical of the current social impact bond model because they do not bring about *"…creative destruction into the achievement of social and environmental outcomes",* and are not tradable in a free market.

The concept of social impact bonds emerged in the UK in 2008-2009 through the Council on Social Action set up by the Blair government *"…to bring together innovators from every sector to generate ideas and initiatives through which government and other key stakeholders can catalyse, develop and celebrate social action"* (Council on Social Action, 2008 and 2009, Cabinet Office, 2013a). The fifteen-member Council included representatives from Community Links, an east London charity; various social investment and communications advisers; the Young and Joseph Rowntree Foundations; organisations promoting social and criminal justice solutions and volunteering; management consultants Accenture; lawyers Allen and Overy; Royal Mail; and a fair trade chocolate company.

The Council on Social Action was preceded by the first Social Investment Task Force in 2000, an initiative of the UK Social Investment Forum, New Economics Foundation and the Development Trusts Association, and chaired by the founder of a private equity group. Other members included the chief executives of the PPP Healthcare Medical Trust and Guide Dogs for the Blind, founders of a large women's fashion retailer and a computer company, the ex-director of a Chicago community development bank and a journalist! They recommended a community development tax credit and venture funds, support for community development financial institutions and encouragement for foundations and trusts to invest in community development initiatives including for-profit initiatives (Social Investment Task Force, 2000).

The Young Foundation cited their role in advancing social impact bonds as:

> *…a financial tool being developed in the UK (by the Young Foundation and Social Finance) to provide a new way to invest money in social outcomes. Their key innovation is to link investments (by commercial investors or foundations); a programme of actions to improve the prospects of a particular group (for example 14-16 year olds in a particular area at risk of crime or unemployment); and commitments by national government to make payments linked to outcomes achieved in improving the lives of the group (for example, lower numbers in prison, and lower benefits payments) (Murray et al, 2009).*

The 1997-2010 Labour government produced various reports outlining its approach to public sector reform to *"…pilot social impact bonds as a new way of funding the third sector to provide services"* (HM Government, 2009).

> *Often the right supplier of a service is a social enterprise, a private sector provider, a public sector organisation with the autonomy and freedom to innovate or, increasingly, communities and individuals themselves (ibid).*

To enable this process, Social Finance was set up in 2007 to *"…marry the needs of investors and the social sector, and to connect the sector to capital markets"* (Social Finance, 2009a). The concluding commentary of the Council for Social Action describes how its first meeting agreed to develop a proposal from two members, Peter Wheeler, partner at Goldman Sachs and David Robinson of Community Links, a East London charity working with young offenders, to obtain longer term funding based on outcomes. A Sainsbury family trust agreed to fund Social Finance to explore how the International Finance Facility for Immunisation Bond model, (which front-loads funding for immunisation in developing countries), could be applied in the UK on behalf of the Council (Council for Social Action, 2009).

Political support

It is no coincidence that conservative governments have promoted social impact bonds in the UK, Canada and Australia, supported by US Democrats and Republicans. However, the first social impact bond in Peterborough, UK, was developed and approved during the 1997-2010 Labour government. It is yet another example of how New Labour policy is being mainstreamed by conservative governments.

The timeline shows that the policy and proposal, discussions with the HM Treasury and Ministry of Justice (who prepared the draft contract), outcome measures, operating model, structuring and discussions with potential investors, took place between late 2008 and March 2010 prior to the election of the Conservative/Liberal Democratic coalition government and their promotion of so-called 'Big Society'.

European perspective

The European Commission adopted its Social Investment for Growth and Cohesion strategy in 2013, which made a brief reference to social impact bonds that *"…incentivise private investors to finance social programmes by offering returns from the public sector if the programmes achieve positive social outcomes"*. The Commission agreed to facilitate the exchange of experience between Member States (European Commission, (2013).

The following year the European Social Policy Network (ESPN) produced country reports and an overall report on how they could contribute to the implementation of the Commission's social investment strategy. The UK report made only a brief reference to social impact bonds, despite the UK being the global leader in these projects (European Commission, 2015a). The overall European report made no reference social impact bonds (European Commission, 2015b). A European Parliament briefing for Members was largely supportive of social impact bonds (European Parliament, 2014).

An example of a UK public body expressing support for social impact bond projects is set out in Box 2 together with comment following their italicised statements.

Box 2: Distorted rationale

New Economy, which delivers policy, strategy and research for the Greater Manchester Combined Authority and the Greater Manchester Local Enterprise Partnership, is an example of the way social impact bonds are promoted. A review of financial instruments to inform the North West's 2014-2020 EU Funding Strategy contained the following statements on social impact bonds (New Economy, 2013).

> *Firstly, SIBs allow for private financing of interventions aimed at alleviating social problems. This has the advantage of bringing in investment which otherwise would not be available to the public sector.*

Comment: The public sector has to pay for the investment plus the profits to investors and is therefore not additional investment. It replaces public investment at a much higher cost.

> *Secondly, SIBs provide businesses with a way to invest in social projects that provide the possibility of financial return while also benefiting society. This widening of access to and supply of finance is especially important when government budgets are limited and opportunities to fund interventions through traditional funding streams are correspondingly reduced.*

Comment: These are public services, but re-designating them, as 'social projects' for profitable business investment is marketisation and privatisation. Social impact bonds are ultimately financed by the public sector when private investors are repaid. It would be financially advantageous if early intervention and prevention policies were directly provided by the public sector to avoid having to pay the 15% - 30% or more annual rate of return to private investors. The solution lies in increased public spending through progressive taxation and economic development strategies, not in accepting austerity and neoliberalism.

> *Thirdly and finally, by increasing the number of investors, SIBs also transfer a portion of the risk of failure of an intervention away from the public sector: if the intervention fails, investors lose a proportional amount of their money whilst the public agency has not had to reallocate budgets away from acute services in order to pay for the intervention" (New Economy, 2013).*

Comment: If the intervention fails it will almost certainly impact on service users and staff, but this is never referred to. The public sector, service users, staff and contractors bear risks as well as private investors. If the public sector funds social impact bonds it must reconfigure existing services and continue to operate acute services at a time of continuing public spending cuts. The failure to achieve the outcome targets may not be evident for several years so avoiding reallocation of budgets is a myth.

1.6 Language of the marketplace

The impact investing, social impact bond and pay-for-success literature unashamedly uses terms such as private investors, investment market, rates of return, profit, venture capital, and equity-style returns. These terms are the language of financial markets and business and directly conflict with the principles and values of public service, most non-profit organisations and community organisations. The choice of language promoting a 'rate of return' instead of a 'public service' is ideologically revealing. *"To engage more mainstream investors, including institutional investors, will require framing the discussion in language they can relate to, not purely in "social investment" terms"* (OECD, 2014).

The language of the marketplace – competition, contestability, contracts, procurement, making markets, mixed economy, level playing field, business, brokers, and soft market tests – is intended to change attitudes, priorities and embed the idea of marketisation in the public sector (Whitfield, 2006).

Similarly the description of contractors as 'providers' is an attempt to neutralise and make acceptable the language of procurement, despite the fact that a legal contract and company status are basic conditions for participating in the procurement process.

The branding of projects and policies as 'social' and 'community' is an established tactic. The Conservative/Liberal Democrat UK Coalition frequently used the term 'community action', a use unheard of even in the Thatcher era.

The focus on selective words to the exclusion of others is another tactic. For example, the current obsession with outcomes excludes the value of inputs (skills and experience of staff), processes (working methods, participation) and outputs (location and quality of affordable housing) when all the criteria are equally important in determining the quality of public services.

1.7 Objectives and structure of this report

This study examines the impact investing sector and social impact bonds and pay-for-success projects.

- Part 2 describes the role of global banks and philanthrocapitalism in promoting impact investing and social impact bond projects.
- Part 3 examines the political economy of social impact bond projects identifying the reasons why and how they developed, the similarities and key differences with PPPs.
- The financial, organisational and operational aspects of social impact bond projects are discussed in Part 4 including the degree of innovation, risks and long-term effects, high transaction costs, exaggerated savings, the impact of profiteering and lack of economic, social and equality impacts.
- Changes in the finance of development aid in the global south and planned use of Development Impact Bonds are examined in Part 5.
- Part 6 examines the lack of democratic accountability, participation and transparency. Equally significant is the absence of service users and communities in the planning, design and operation of social impact bond projects.
- Part 7 reveals the almost total absence of references to the employment terms and conditions of those engaged in delivering social impact bond projects.
- Part 8 details the scope for public sector innovation and improvement and sets out the policies and strategies that are needed. The concluding section considers the potential effects of private investment and the future of the welfare state.

2 Big banks, philanthrocapitalism and impact investing

2.1 Private, social and philanthropic funding models

At one level social investment is broadly defined as *"…investing in people. It means policies designed to strengthen people's skills and capacities and support them to participate fully in employment and social life"* (European Union, 2014). The term has also described public and private investment in infrastructure and services (Allens, 2015). Impact investing is another dimension of social investment that combines the demand for a rate of return or profit with achieving social and environmental targets. A business and commercial approach provides *"…an opportunity to complement precious philanthropic capital and to promote market-driven solutions"* (Rodin and Brandenberg, 2014).

Socially Responsible Investment and Corporate Social Responsibility

Socially Responsible Investment (SRI) describes investments made into companies that engage in, or adopt policies, for sustainable/clean energy, social investment, environmental protection and human rights. It can also include investments made to try to improve corporate policies. It is investor led.

Many large corporations adopt Corporate Social Responsibility (CSR) policies, which usually allocate a small part of their annual budget to charitable work and have policies that may promote environmental and social policies and good working conditions. It is corporate led in contrast to SRI.

Impact investing

Impact investing is defined as *"...investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return"* (Global Impact Investing Network, 2015). Sectors include sustainable agriculture, affordable housing, healthcare, clean technology and financial services.

Impact investment has four dimensions – investors, social objectives, measuring impact and financial return (some investors may accept a return of capital as a minimum requirement).

There is a strong case for increased social investment in new or improved community housing, community enterprises and facilities, regeneration and other citywide or local projects. This is distinct from privatising public services and the welfare state, which is the subject of this study.

Philanthrocapitalism – demand for investment and financial return

Philanthrocapitalism describes the growth of foundations and trusts that are critical of awarding grants and instead believe in the application of business practice and market forces to ensure resources are invested at market rates of return. This approach raises key issues and questions that cannot be examined in detail here, but the following comments are indicative:

> *…philanthrocapitalists have helped to perpetuate a dubious belief: the idea that corporations and private entrepreneurs are subsidising gaps in development financing created by increasingly non-interventionist states. In reality, it is often governments subsidising the philanthrocapitalists. (McGoey, 2014).*

> *…doubt that analogizing charitable work to that of capitalist entrepreneurs and Wall Street investors will enrich the way nonprofits are governed and the way they carry out their activities—particularly to the extent that nonprofit work disproportionately affects non-elites in society, i.e., poor, disadvantaged, and middle-class people (Jenkins, 2011).*

> *…Philanthrocapitalism may well produce a vaccine against malaria, but there's no vaccine against greed, fear, poverty, inequality, corruption, lousy government, personal alienation, and all the other things that plague us (Edwards, 2010).*

> *Instead of making a profit to help the most vulnerable, the goal becomes making a profit from the most vulnerable (National Union of Public and General Employees, Canada, 2014).*

P*hilanthrocapitalism* is the embedding of neoliberalism into the activities of foundations and trusts. It is a means of marketising and privatising social development aid in the global south. It has also been described as Philanthropic Colonialism:

> *Whether it involved farming methods, education practices, job training or business development, over and over I would hear people discuss transplanting what worked in one setting directly into another with little regard for culture, geography or societal norms (Buffett, 2013).*

In the article appropriately titled *The Charitable-Industrial Complex*, he observed:

> *…As more lives and communities are destroyed by the system that creates vast amounts of wealth for the few, the more heroic it sounds to "give back." It's what I would call "conscience laundering" — feeling better about accumulating more than any one person could possibly need to live on by sprinkling a little around as an act of charity. But this just keeps the existing structure of inequality in place (ibid).*

The replacement of public finance and grants from public/foundations/trusts to community organisations, voluntary organisations and social enterprises with 'social investment', requiring a return on investment, means that all activities must be profitable. This will have a profound impact on the ability to regenerate to meet social and community needs. The merging of PPPs, impacting investing and philanthrocapitalism would be complete!

GRANT FUNDING FOUNDATIONS, TRUSTS AND CHARITIES

Two types of funding practices are evident by foundations, trust and charities. The first is the traditional grant-aided support for a wide range of non-profit social action ranging from campaigns to community initiatives and the provision of services. It ranges from one-off grants or donations, to limited-term support for projects that meet the foundation, trust or charity objectives. Some may provide pump-prime funding to support an organisation's work to help it attract wider funding.

The second type is the funding of political and business campaigns by some philanthrocapitalists. A powerful US group of neo-conservative organisations and wealthy individuals raise/distribute millions of dollars annually to finance right wing candidates, promote low taxes, anti-trade union legislation, corporate welfare, and the implementation of neoliberal public policies (such as charter schools). Many, such as Koch companies and foundations, operate through the American Legislative Exchange Council (Center for Effective Government, 2013 and In the Public Interest, 2012). Other foundations such as the Bill & Melinda Gates Foundation, Walton Foundation (Walmart) and the Eli and Edythe Broad Foundation have played a key role in funding and promoting charter schools to compete with the public school system (Barkan, 2011). Similar philanthrocapitalists operate in Europe and other parts of the world.

The four models of private, social and philanthropic funding are descried in Table 2. Investors include individual private investors, banks and other financial institutions, companies and charitable organisations such as foundations and trusts.

TABLE 2: PRIVATE, SOCIAL AND PHILANTHROPIC FUNDING MODELS

Socially responsible investment (SRI) and Corporate Social Responsibility (CSR)	Impact investing	Philanthrocapitalism	Grant funding foundations, trusts and charities
Investment in SRI companies that engage in sustainable/clean energy and other projects with positive social and human rights impacts. Companies adopt Corporate Social Responsibility policies to allocate a fraction of their resources for charitable work and have policies that claim to promote environmental and social policies.	Impact investments are investments made into companies, funds and organisations with the intention to generate both a market-rate financial return and social and environmental outcomes. Some prioritise 'finance' first, others 'impact' first. Impact investments can include cash deposits, loans, and purchase of shares in a company or combination of these.	Foundations and trusts make investments in social enterprises and expect a market rate of return. Can include loans or other financial instruments with repayment and profit. The application of business practices and market theory to foundation funding of projects.	Limited term or one-off grants/donations to non-profit groups, community organisations and citizen initiatives. Venture philanthropy targets new or expanding organisations to provide operational support in addition to grants. Cash funding of political campaigns and business organisations by wealthy individuals and private foundations usually in pursuit of neoliberal objectives.
Related ideology and objectives			
Profit, markets and business planning and practices. SRI or ethical investors buy shares only in companies with social and environmental policies. CSR companies seek reputational advantage by contributing to good causes and local causes where they are located.	Profit, markets and idea that combining the profit motive with social and environmental objectives will produce a net gain for shareholders, 'customers', employees, suppliers and communities.	Profit, markets and business planning and practices. Investment in enterprises with results-driven conditions to make repayment of loans with profit.	Non-profit funding of causes, campaigns, services, research and innovative projects. Venture philanthropy has objective of creating sustainable innovative organisations by providing business planning and support alongside grants, but do not require a return on investment.

2.2 PROMOTING SOCIAL IMPACT BOND AND PAY-FOR-SUCCESS PROJECTS

Global banks such as Bank of America Merrill Lynch, Goldman Sachs, JP Morgan Chase and Co. and Morgan Stanley have played a key role in promoting and funding social impact bond projects in anticipation of attracting wider private investor interest. Foundations, in particular the Rockefeller Foundation and the J.B. and M.K. Pritzker Family Foundation, have similarly promoted and funded projects. Impact investment and social finance organisations have published reports that portray social impact bonds as the 'best thing since sliced bread'.

International bodies have also advanced the cause of social impact bond projects. The G8 group of countries established a Social Impact Investment Taskforce (Social Impact Investment Taskforce, 2014a), the OECD produced two reports on social investment (OECD, 2014a and 2015) and the World Economic Forum (WEF) reported on the opportunities to engage mainstream private investors (WEF, 2013). The World Bank launched its own version of payment-by-results, Program-for-Results (P4R), in 2012 (World Bank, 2015).

A MULTI-BILLION MARKET?

The fifth annual global impact investor survey revealed that 82 organisations that responded in both 2013 and 2014 reported a 7% growth in capital committed and a 13% growth in the number of deals. Total investment reached US$10.6bn in 2014 in 5,400 investments (J.P. Morgan and Global Impact

Investing Network, 2015). UK social investment was forecast to increase from £165m in 2011 to £1bn by 2016, but this included all forms of social investment. However, it only accounted for just over 1% of the small business loans market (Brown and Swersky, 2012). If the £1bn was achieved with an average 15% - 30% annual return on investment, it would divert between £150m - £300m from frontline services into the pockets of investors.

An assessment of the US social impact bond market concluded:

> *However, as the market grows, philanthropic participation as guarantors may not prove scalable. Familiarity with deal structures and evaluation methods, supportive political environments and longer track records for interventions should contribute to commercial investors gradually assuming more performance risk with lower levels of guarantees (Godeke Consulting, 2012).*

This would radically change the nature of 'social' investment.

Investing to privatise the welfare state

The State of New York recidivism project, funded by Bank of America Merrill Lynch and Social Finance US, was the first social impact bond project offered to investors via the bank's wealth management platform in 2013. US$13.5m was raised from over 40 individuals and institutional investors (US National Advisory Board on Impact Investing, 2014).

The Dutch bank ABN-AMRO considered the possibility of banks issuing social impact bonds as normal financial bonds. *"…banks are already issuing bonds on a huge scale, so SIBs could be a minor addition to their portfolio. Making it easier to involve banks in SIBs, but also to scale SIBs. Once the bonds are up and running, it can be easily duplicated. If bonds are issued, it immediately creates a secondary market for SIBs"* (Vennema and Koekoek, 2013). However, investors would want a relatively low risk return and it would be very difficult to fix a standard rate for dividend payments.

The UK social investment company Allia launched the first retail social impact bond, the eight-year Future for Children Bond, in early 2013, but it was cancelled due to lack of interest. 78% of the fund would have funded a low risk, fixed rate loan to Places for People housing association for affordable housing, 20% was to be invested in the Essex County Council's social impact bond project to prevent children going into care, and the remaining 2% was Allia's management fee. Marketing, timing and features of the bond were cited for the lack of interest (Social Enterprise Buzz, 2013).

The Triodos Bank produced a 'blueprint for retail impact investing', which recommended the creation of impact investment funds for the retail market, the expansion of impact-enabled employee savings and pension plans and tax incentives for retail impact investments (Social Impact Investment Taskforce, 2014b). A 'social pension fund' retail model is planned to attract savers to invest part of their defined contribution pension fund, run by large investment companies and social finance intermediaries, to *"…kick-start a new social impact segment of the UK pensions market"* (Keohane and Rowell, 2015).

Impact investment by Australian superannuation funds has been limited. This was primarily due to a pessimistic response by trustees concerned about their statutory investment obligations and a limited understanding of impact investment (Charlton et al, 2013).

The 'social investor' is a cover ultimately to draw in mainstream private capital to fund social and other public services that would otherwise, at least initially, only attract a few financial companies such as Bank of America and Goldman Sachs. Global banks have to date committed very small exploratory resources to social impact bond projects and are clearly waiting to see whether the investment market shows potential growth. Foundations and charities have financed many social impact bond projects, but limited resources and changing priorities mean they are unlikely to continue to be a mainstream funder.

Right wing organisations such as the Reason Foundation and the American Enterprise Institute (AEI) are promoting social impact bond projects. Reason believes they are *"…a PPP that uses private sector funding to advance new social service delivery models*" and has reported on legislation and projects through its newsletters and annual privatisation report (Gilroy, 2013). The AEI proposed using social impact bond projects to leverage private capital to finance higher education, for example, State- and

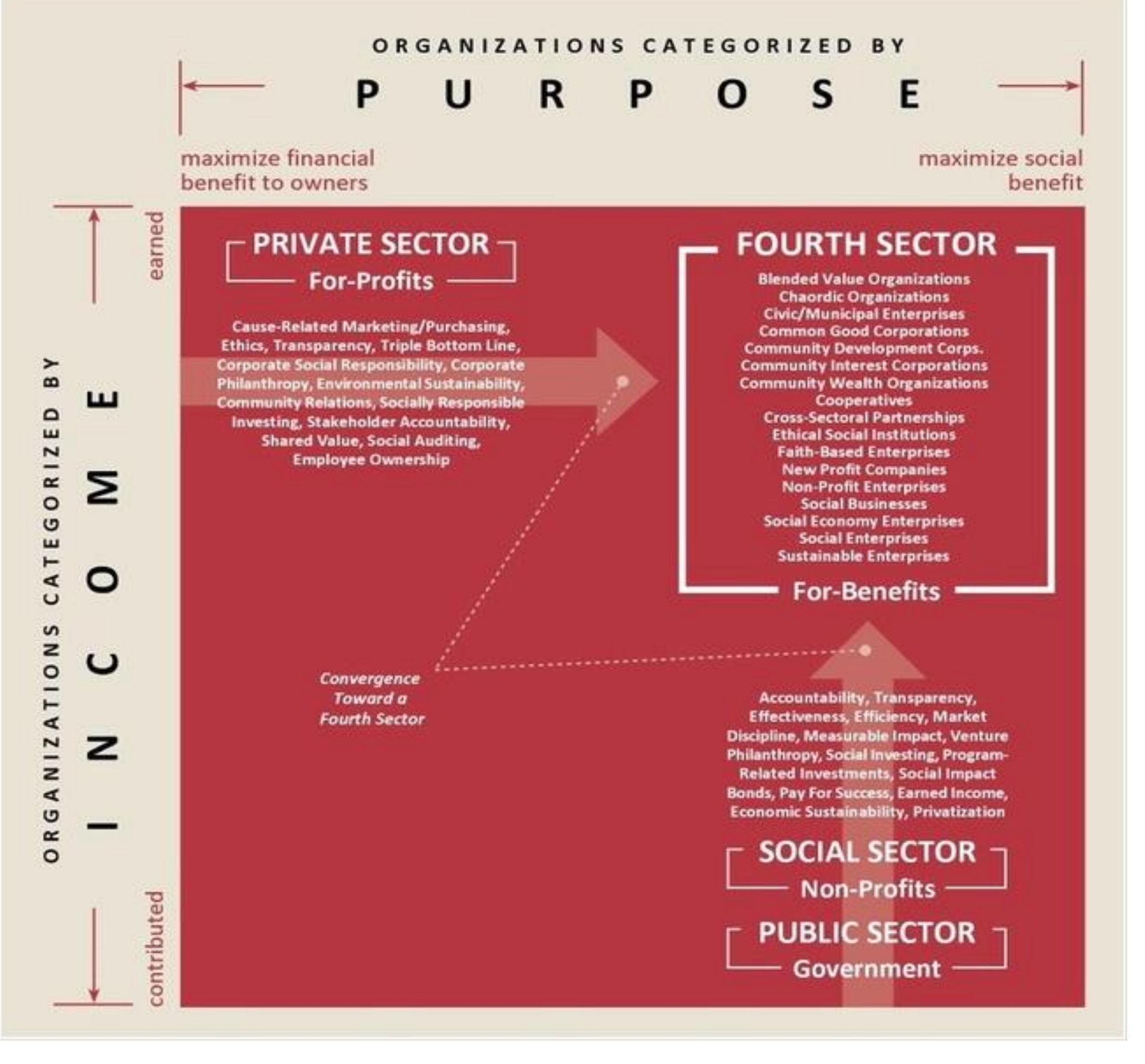
Federal-funded remedial courses for underprepared college students and completion rates in credit-bearing courses or job-placements rates (Kelly and McShane, 2013).

A Rockefeller Foundation funded study to map social impact investing opportunities in the German education sector concluded there is scope for *"…targeted social impact investments in selected areas might effectively complement government activities"* (Hochstadter and Scheck, 2014). It did, however, recognise the difficulty of market-based approaches competing with established welfare institutions, the particular structure of federal state education provision and ethical concerns and the *"…general distrust against the 'economization' of the social economy"* (ibid).

The emerging fourth sector

The emerging US fourth sector comprises community development corporations, social enterprises, social businesses, non-profit enterprises, new profit companies and similar enterprises. The initiative is led by the Urban Institute's Center on Nonprofits and Philanthropy and defines the four sectors by purpose and income (see Figure 1). They *"…see profit as an entirely acceptable component of the process"* and *"…relegate the non-profit realm to the bench"* (Cohen, 2015). The treatment of the public sector demonstrates the simplicity of the analysis. Market–driven financing of social impact bond projects is certain *"…to exert a fundamentally corrupting influence on non-profit service delivery within civil society"* (Malcolmson (2014).

Figure 1: The emerging fourth sector



2.3 Impact investing – embracing neoliberalism

Despite the uncertainty over future investment models in social impact bond projects, impact investing organisations have embraced neoliberalism.

The demands of the impact investing market include deregulation, tax incentives, reduction of the due diligence requirement for investors and investees (Impact Investing Australia, 2014).

> *Capital should be made available in Australia to build the capacity of social enterprise to participate in the private capital marketplace (ibid).*

But the objectives go beyond 'doing good' when impact investing ideologues perceive a much more decisive role for themselves in government:

> *Additional opportunities to partner with governments in commissioning reform and investment (ibid).*

This statement envisages private capital teams up with non-accountable social finance organisations, jointly deciding the types of reform and allocating public spending. In other words, the boards of charitable organisations, banks and other financial institutions will be deciding social priorities rather than government. Furthermore, the market will heavily influence decisions for social impact bond projects, which in turn are dependent on expected investment rates of return.

Making markets is a core objective:

> *Build capital and opportunities for larger scale investment that can attract a range of investors including institutions and catalyse the market (ibid).*

> *Social investment leverages the private markets to provide public goods, however, the mechanisms to do so are not efficient and therefore can benefit from government intervention (OECD, 2013).*

The performance mantra has changed from the government setting external targets together with internal management targets on public services to:

> *…allows government to purchase results (Social Investment Taskforce, 2014).*

This is like buying outcomes off a supermarket shelf: "In this years budget we are buying a 10% reduction of child in care; a 13% improvement in educational attainment for 18 year olds; an 8% reduction in reoffending; and a 20% increase in health outcomes of care home elderly patients" (a fictitious statement).

The 'purchasing of results' is similar to the justification used for charging student fees for higher education, because graduates will on average have higher salaries after graduation (this ignores the soaring student debt problem). Toll road charges are justified on the grounds they reduce travel time and increase productivity. Automation, robotics and technological change could eventually lead to justifying primary and secondary school fees, because with fewer highly trained workers required, education will increase pupils' employment opportunities with wages significantly higher than unemployed benefit rates. Once the concept of charging for or buying virtually everything is established, neoliberal ideology will know no bounds. Some samples follow.

From infrastructure to services - the Co-Founder and Chair of Impact Investing Australia summed up the opportunities for private capital:

> *There are significant, concrete opportunities for private capital to take a more active role in delivering social infrastructure and services that are traditionally provided and funded by the government and not-for-profit sector alone, in areas such as aged care, health, affordable housing, education and international development (Addis, 2015).*

Impact Investing Australia clarified the opportunities:

In some cases, public-private partnerships have been extended to these projects and there is willing capital in Australia. There is significant potential to further unlock capital and improve outcomes and alternatives for service provision where interested parties can come together on appropriate terms. This is not simply about contractual relationships or privatisation of public services. It is part of a broader shift in how we meet the needs of citizens and communities (Impact Investing Australia, 2014).

They signal a move away from purchaser-provider models of contracting towards greater collaboration, re-positioning government as catalyst and aggregator of resources (ibid).

A neoliberal future for government:

The public sector will increasingly act as a facilitator of services, rather than a direct provider, with all areas of service delivery opened to competition. Citizens in need of services will exercise control over the range of services they access and the means by which they are delivered (Western Australia Economic Audit Committee, 2009, quoted in Impact Investing Australia, 2014).

Blueprint for a quality impact investment solution in an area of social service delivery that has scale and includes elements of infrastructure, increasing demand on government budgets, and clear opportunities for innovation and improved outcomes (Impact Investing Australia, 2014).

The attraction of social impact bonds and pay-for-success:

Wall Street banks are eyeing a nascent market that improves their public image at a low risk and still offers them a reasonable return on capital (Reuters, 2013).

There is an increasing number of emerging business models where the pursuit of social or environmental impact is a mutually reinforcing goal alongside financial return. These are the types of business models that impact investors actively target (JP Morgan and Global Impact Investing Network, 2014).

Longer-term goals

With sufficient engagement from institutions like Deutsche Bank, impact investment has the ability to become an asset class of true significance, and from this, a new model of 'sustainable capitalism' can emerge. Impact investment should be fully integrated into the business model to make it not just a 'nice to have' but an integral part of business. My vision is for every asset manager to have a social investment fund (Colin Grassie, Chief Executive of Deutsche Bank UK, 8 October 2014).

Certain consequences of markets could be commonplace such as high transaction costs, consolidation (takeovers and mergers between social enterprises and non-profits and by private companies); diversification as organisations/companies seek economies of scale; a contract culture; selective innovation determined by profitability and potential savings.

The idea that a new generation of investors are seeking social outcomes, not just profits, is hardly credible, because banks and other financial institutions want to attract private investors who will be seeking the 15% - 30% annual rate of return. They may claim an element of 'social' responsibility, but the primary objective will be profitable financial investment. It will be impractical to test the 'social' credibility of potential investors.

3 Political economy of impact investing and social impact bonds

Neoliberal ideology and objectives have been dominant for over three decades. This ideology promotes free trade, competition and markets to allocate resources and deliver services with government control of money supply. Deregulation is intended to create new opportunities for accumulation and to restore the falling rate of profit. The transformation of nation state and democratic governance is intended to form a partnership between state, finance and business interests, committed to reducing taxation and the cost and power of labour (Whitfield, 2014a).

3.1 Crises and inequalities

The crisis of accumulation and the falling rate of profit, labour's declining share of national income, changes in the capital/labour share of power and increased inequalities were evident well before the 2008 global financial crisis.

A long-term trend in the falling rate of profit is evident in major economies and in particular the G7 and G20 groups of countries, although with periods of stabilisation and small increases (Maito, 2014 and Roberts, 2015). An analysis of the falling rate of profit in the G20 group of countries identified *"…a mild recovery in the 1990s until the early 2000s. Since then the G20 rate of profit has slumped, both before the 2008-09 Great Recession and after, with only a tiny recovery up to 2011"* (Roberts, 2015).

The expansion of waged labour in industry and agriculture dominated capital accumulation in the 1950s and 1960s. Although the ownership and control of energy and transport had been a public-private struggle for decades, this had a new intensity from 1980 onwards. 'Accumulation by dispossession' then became the dominant strategy (Harvey, 2005). The process of financialising, marketising and privatising the public sector and welfare state began in earnest as capital viewed public assets as a source of accumulation (Whitfield, 2001).

The labour share of national income has fallen significantly since the early 1990s. The median labour share of national income fell from 66.1% to 61.7% between 1990 and 2009 in 26 out of 30 developed countries (Organisation for Economic Co-operation and Development, 2012). Other studies identified financialisation to be the prime cause followed by globalisation, privatisation, welfare state retrenchment and union density (Stockhammer, 2013 and International Institute for Labour Studies, 2011). Although labour productivity increased more than twice the rate of average wages in 36 developed economies between 1999-2013, the benefits were unevenly shared between capital and labour (International Labour Organisation, 2015).

The continued decline of trade union membership in many industrialised countries weakened the power of labour. UK trade union membership was 6.5m in 2013 compared to a peak of over 13m in 1979. Public sector density was 55.4% in 2013 and only 14.4% in the private sector (Department for Business Innovation & Skills, 2014). Trade union membership and union density declined an average 19.2% and 18.2% respectively in a sample of nine large economies (Australia, Canada, Germany, France, Italy, Japan, Sweden, UK and US) between 1980-2010 (Schnabel, 2012). Only Canada increased union membership in the same period, but had a small decrease in union density.

Income inequality has widened in advanced economies, which can lead to higher social costs, particularly health and education, reduced social mobility and lower economic growth (Dabla-Norris et al, 2015). Equality issues concerning social impact bonds are discussed in Part 4.

In this context, social impact bond projects increase the financialising and monetising of public services with private investors providing operating capital and monetising of outcomes (see Part 4). Further, their structure outside of the public sector results in the outsourcing of some commissioning functions, such as monitoring and evaluation, and service delivery. They therefore accelerate the commodification, marketisation and privatisation processes. Their structure erodes democratic accountability and transparency and on this basis, they are a typical neoliberal project.

3.2 Financialising the welfare state

Financialisation is defined as the globalisation of financial markets, the increase in income from financial investment, the shareholder value revolution and the penetration of finance into commercial relations (Cooper, 2015). Financialisation within public services and the welfare state has five dimensions.

- Firstly, the design of programmes and projects that specifically require upfront private finance with the exclusion of public provision, such as social impact bonds and PPPs. Government repays the private sector, but at a much higher cost than public investment.
- Secondly, monetizing the value of outcomes by agreeing a fixed sum of money for each outcome (see Part 4).
- Thirdly, increasing the scope for private delivery of public services through outsourcing and privatisation as a direct consequence of private finance, such as PPPs and social impact bond projects.
- Fourthly, the commercialisation of public services through arms length trading companies, adoption of a more passive role in partnerships, and in the case of social impact bonds, the withdrawal of government from traditional responsibilities in procuring and managing contracts.
- Finally, governments and public bodies have funded infrastructure projects via Tax Increment Financing (TIF) in a particular area by borrowing against future anticipated increases in tax revenue over a 25-year period.

These measures have been supported by wider use of publicly financed market support, grants, subsidies, guarantees and tax breaks leading to the further embedding of corporate welfare.

The global financial crisis and subsequent austerity policies created a platform to accelerate the use of private finance in public services and the welfare state. Austerity policies led to deep cuts in public expenditure, negative or low levels of economic growth as a result of a decline in public and private investment, mass unemployment, wage cuts and decreased consumer spending (Whitfield, 2014b).

Renewed claims of ‘deficits’, ‘gaps’ and ‘government failure’ are another common theme expressed by business and trade organisations and their political allies. Private investment is commonly justified on the grounds of economic growth and markets with minimum reference to social need.

Social impact bonds extend private finance deeper into core welfare state services. They follow the trail of partnerships and joint ventures with developers and private companies, tax increment financing and other ‘buy now-pay later’ schemes. Longer-term, the financial market could create a new ‘asset class’ or stream of potential investment opportunities for private and ‘social’ investors, that provide another way of extracting profit from the delivery of public services.

Social impact bond projects are required to ‘*monetise the gains’* via enforceable contracts of outcomes and the savings obtained from reduced demand of existing public services, infrastructure and welfare state programmes (Kaufman Foundation – ReadyNation, 2012).

Outsourcing of public services is usually financed directly by public sector revenue budgets and does not incur the high cost of upfront private finance. The cost differential between public and private finance in the UK is stark because *“…the effective interest rate of all private finance deals (7%–8%) is double that of all government borrowing (3%–4%)”* (National Audit Office, 2015). Some social impact bonds have been financed by foundations and trusts eager to establish the model and have accepted below market rate of returns or awarded grants. If successful, foundation/trust funding will be replaced by private investment by financial institutions such as banks, private equity funds, pension funds, impact investors and wealthy individuals, which will mean private borrowing costs and market rates of return. This will increase the current cost of social impact bond projects.

Social impact bond projects claim to transfer risk from government to the private sector. They monetise public services through the payment-by-results model and with the likelihood of a secondary market emerging to trade social impact bond investments – a Social Stock Exchange already operates in the UK (see Appendix). Meanwhile, consumerism and individualisation, together with personal budgets, have been extended to more health and social care service users.

Social reproduction

The imposition of market ideology comprising: the partial privatisation of commissioning; the commodification of services; a contract culture; the monetisation of outcomes and the commercialisation of service delivery, will extend from private contractors to non-profit enterprises and voluntary service organisations. This will have a profound effect on people's lives, communities and social relations. Commercial values and business practices will shape the financialisation of social reproduction (Dowling and Harvie, 2014).

The commodification and monetisation of early intervention and prevention is almost certain to have a negative impact particularly for women in social reproduction, in training and employment and will intensify gender inequality. The change of focus from poverty and social exclusion to 'troubled families' or anti-social behaviour (see Part 4) shifts the cause from underlying economic and social conditions to individual families. It also changes the design of public policy initiatives. The lack of participation in social impact bond and pay-for-success projects means that needs assessments, project design and delivery, excludes the very people they claim to support.

In addition, the move to philanthrocapitalism could lead to fewer resources being available to fund the wide range of community projects, such as child care, housing, community and welfare services, in which women have the primary role, and make an important contribution to social reproduction. Experience shows that market ideology leads to a decline in advocacy and mobilisation by non-profit organisations:

> *Operating within a political economy of contracts, privatization, and marketization chills nonprofit human-service organizations' interest in and ability to engage in policy advocacy. It also limits their ability to mobilize for expansion of social rights. Advocacy, when it does occur, typically centers on obtaining benefits and resources for local constituencies (Hasenfeld and Garrow, 2012).*

Austerity policies have led to significant cuts in wages and benefits. In addition, demographic change, in particular the aging of populations, will impose additional pressure on women to undertake unpaid family and neighbourhood care duties. Additional employment opportunities will be created in care services, but current terms and conditions are already unsustainable (Whitfield, 2015).

Private investors are likely to assert greater influence in the public policy-making process and investment decisions. They could, in effect, cherry-pick the target populations and services that will produce the required returns with minimum risk. This would create a two-tier system leaving the state responsible for the difficult social issues.

> *…there might be an incentive to 'cherry-pick' an area or a prison if SIBs were rolled out more widely. For example, prisons with strong inspection reports or better facilities might be more attractive targets for intermediaries and investors, in the hope that outcomes would be easier to achieve with offenders discharged from those establishments (Disley et al, 2011).*

The focus on investors, achieving outcomes and government savings in social impact bond projects have marginalised the participants, who tend to be treated as cohorts (groups of people with similar characteristics). There appears to be little positive evidence of the 'personalisation' agenda (Whitfield, 2012a), except to the extent that targeted and personal support for participants is essential to achieve the specified outcomes.

The New Zealand government is planning a pilot social impact bond in mental health services (Ministry of Health New Zealand, 2013), but more fundamentally, has adopted an 'investment approach' to the future funding of welfare benefits. A similar model is being considered in Australia (see Box 3).

Box 3: 'Investment approach' to the welfare state

The 'Investment Approach' *"…uses an independent actuarial model to evaluate the likely long-term costs (forward liability) of paying benefits to current and recent income support clients. The valuation is based on what has happened in the past to other people with similar backgrounds (using 30 years of data on patterns of benefit receipt)"* (New Zealand Productivity Commission, 2015). It is similar to the way that insurance companies calculate risks.

It takes a long-term view of the future fiscal liability of the benefits system. But it is a financial forecast that excludes cost benefit analysis. *"This is a fundamental flaw: it looks only at costs to the government and at nothing else"* (Rosenberg, 2015) and *"…accounting rather than economic concepts of costs"* (Chapple, 2013). Furthermore, long-term forecasting is notoriously difficult because future performance of the global economy, national economic strategies and economic crises cannot be predicted and thus the level and needs of benefit claimants.

The Ministry for Social Development uses the actuarial model and service trials to set service investment and disinvestment priorities. It is developing *"…a return on investment framework to make this process more systematic by identifying the costs of delivering services down to the level of individual clients and by incorporating both immediate fiscal savings from reduced time on benefit and reductions in the forward liability. The framework will enable investments with longer-term payoffs to be evaluated alongside those with nearer-term returns"* (New Zealand Productivity Commission, 2015). The government is considering extending the 'investment approach' to other social services.

The 'return on investment' is limited because it *"…is the reduction in future liability for a given expenditure without taking benefits into account"* (Rosenberg, 2015). The system is severely constrained in developing early intervention and prevention strategies, because targeting clients does not take costs and benefits into account. The financial focus, coupled with the ideology that innovation is only possible in the private sector, will lead to further outsourcing of government services under the guise of 'choosing of interventions'.

The prime objective of the 'investment approach' appears to focus on reducing future financial liabilities of the welfare state. The government now commissions an annual valuation of the benefit system for working-age adults. The July 2014 valuation by an Australian actuarial consultants provided estimates of the total future cost over the lifetime of current beneficiaries, the impact of changes in client groups, lifetime patterns, future cost of benefit receipt and future changes to the client base and the liability (Taylor Fry Pty Ltd, 2015). The only outcome considered was financial apart from quantifying the 'churn' among beneficiaries: how soon they returned to a benefit.

The National Party Minister for Social Development enthusiastically welcomed the 2014 valuation and a few months later announced that the outsourcing of employment services claimants with mental health conditions could be extended to more social services (Jones, 2015). In June 2015 the Ministry of Health announced a trial social bond programme to deliver employment services to people with mental health conditions (Davison, 2015).

Outsourcing has no logical connection to the 'investment approach', but is closely tied politically with the government regularly connecting the two policies in statements. The social bond trial is one of a number of the government's privatisation initiatives.

An Australian government-commissioned review of the welfare system recommended it should adopt and adapt the New Zealand 'investment approach' model (Commonwealth of Australia, 2015a). The Australian investment approach *"…would reduce long term income support reliance through targeted investments. Targeted investments should be designed to achieve a return on investment, increase people's self-reliance and reduce the lifetime liability of Australia's social support system. In addition to improving the lives of people at risk of long term income support reliance this would improve the fiscal and social sustainability of the social support system over the long term"* (ibid).

"The Investment Approach in its present state is a dangerous tool promoting an impoverished, biased approach to public policy" (Rosenberg, 2015).

Current and future benefit claimants are treated as financial liabilities, yet no attempt is made to identify and scrutinise the long-term financial liability of the Corporate Welfare system - the tax concessions, business and training grants, public subsidies, investment guarantees, research and development grants, low cost loans and other public costs of the business sector.

3.3 Similarities with, but key differences from PPPs

Social and development impact bond projects have some similar attributes to Private Finance Initiative (PFI) or Public Private Partnerships (PPP) projects, particularly since they are ultimately financed by public money (Loxley, 2013). Social impact bond projects promise public expenditure savings in contrast to 'value for money' in PFI/PPP projects. Some intermediary organisations are proposing social impact bond projects in a similar way to PPP companies that have submitted unsolicited bids for infrastructure assets in the US and Australia.

However, there are notable differences.

Firstly, social impact bond projects are for core or semi-core public services rather than infrastructure, facilities management or corporate services.

Secondly, they are normally 3-7 year contracts compared to 25-40 years for PFI/PPP projects and 50-99 years for infrastructure concessions.

Thirdly, the role of government is much reduced, because the intermediary organisation, or Special Purpose Company, is responsible for selecting the contractor(s), engaging independent evaluators, monitoring performance and arranging investor repayment by the government.

Fourthly, foundations and trusts, and a small number of banks, currently finance social impact bond projects in contrast to PFI/PPP project finance from banks and financial institutions. The scaling up social impact bonds will, however, depend on attracting a broader range of private investors.

Fifthly, social enterprises, charities and voluntary organisations are currently social impact bond contractors, although private contractors are likely to become involved if the market expands.

Finally, some social impact bond services may be classified as being 'new', so private and social contractors may claim that the transfer of public sector staff and their terms and conditions of employment does not apply under European Union employment regulations or similar legislation in other countries.

Both social impact bonds and PFI/PPP projects increase private finance of public services and the welfare state. However, it is important to highlight the specific threats, risks and impact of social impact bond projects and ensure they are not hidden in the continuing critique of PFI/PPP projects. Repeating the case against PPPs with reference to social impact bonds has limited scope, particularly given the degree to which PFI/PPP policies are unfortunately embedded in the same countries that are now promoting social impact bonds. Instead, the key differences between social impact bonds and PFI/PPP policies need to be targeted.

Lessons from PPPs

The World Bank has been a strong advocate and financier of PPPs for 25 years. The recent evaluation of the Bank's work on PPPs between 2002-2012 revealed a scandalous lack of evidence (Independent Evaluation Group World Bank, 2015):

> *For the World Bank, no systems exits at all that would track performance of PPPs post project closure. To do justice to the broad effects of PPPs, a wider set of outcome indicators should be kept track of throughout the life of a PPP (ibid).*
>
> *…but without a counterfactual, as usually a comparable service provision without PPP does not exist (ibid).*
>
> *Despite the Bank Group's central goal of fighting poverty – reaffirmed by the new strategy's dual goal of ending extreme poverty and promoting shared prosperity – little is recorded on the effects of PPPs on the poor (ibid).*
>
> *Project-level evaluations, IFC's [International Finance Corporation] Development Goals, and its Development Outcome Tracking System measure mainly the operational aspects of a PPP that are relevant to cash flow, such as the number of people that obtained access to infrastructure. Therefore, for only about half of projects are data available for*

one dimension. There is not a single project with data available for all the above-mentioned dimensions (ibid).

This evidence challenges the credibility of statements about the value of PPPs from the World Bank Group and reinforces substantial earlier analysis, for example, by Shaoul (2005), Pollock et al (2011) and other evidence summarised in Whitfield (2010). It also indicates that social and development impact bond projects will have a hard task in providing evidence so that they can address poverty and inequality.

Continued financialisation of public infrastructure

It is important to take account of developments in social impact bond projects in the context of the continued financialisation and privatisation of public infrastructure at both global and national levels. Several global, EU and national initiatives have been launched to increase infrastructure investment and widen the range of investors, in particular to engage pension funds, insurance companies and sovereign wealth funds in PPP projects. These are discussed in the Appendix.

3.4 New markets in early intervention and prevention

Social impact bonds extend commissioning (separation of purchaser/provider or client/contractor functions). They lead to the outsourcing key elements of commissioning to the intermediary organisation or company to recruit investors, project management, employ contractors and to monitor and evaluate performance. The option of in-house provision has been ‘eliminated’, thus making the preparation of *‘business as usual’ or ‘status quo’* options and the appraisal process redundant. Entrepreneurial and business ideology are widely promoted and used to reinforce the belief that only private contractors and non-profit enterprises can deliver social impact bond projects.

The raft of new bond projects and payment-by-result mechanisms increase dependency on contracts, contractual relationships and the contract culture to increase the conditions under which projects are financed or aid is allocated. The effect is to reduce the distinction between the private, non-profit and public sectors and extend the role of so-called ‘independent’ consultants and evaluators.

Public services have suffered under the advent and transition of compulsory competitive tendering to Best Value; outsourcing to strategic partnerships (support to corporate to core services); and performance related pay to service performance targets. Now performance-by-results or pay-for-success is fixated with monetising outcomes to ensure a profitable rate of return for services for the most vulnerable, poor and those dependent on public services and the welfare state. These performance management tools have two common elements – making markets and driving down staff terms and conditions.

3.5 Social impact bond projects are privatisation

Social impact bonds extend marketisation and privatisation in public services and the welfare state, because all their functions are outsourced. Initially, social impact bonds create new opportunities for non-profit and voluntary organisations, but at a price of their longer-term commercialisation, corporatisation and immersion into the contract culture. The centre right political ideology of the private impact investment sector appeals to the ‘entrepreneurial’ ambitious ‘leaders’ of the non-profit sector. It also opens up new opportunities for ‘social entrepreneurs’ to establish consultancies and agencies to provide investment advice and arrange finance. Contracting commonly leads to ‘gaming’ by contractors to increase performance and/or parking those service users who make it difficult to achieve the required performance or require a disproportionate level of resources to achieve an ‘outcome’, for example in the UK’s Work Programme (Carter & Whitworth, 2015).

Government is in effect relinquishing responsibility for the provision of key parts of the welfare state since early intervention and prevention will increasingly be the point of entry to many public services. The state also relinquishes responsibility for changes in staffing levels, terms and conditions and the employment practices of contractors. Markets, market forces, procurement and a contract culture will become pervasive in early intervention and prevention, alongside the weakening of labour rights and equality impact assessment.

Some advocates of social impact bond projects have claimed they are not privatisation:

> *"It is not a privatisation because it isn't being shifted to the private sector," he says. "It is a socialisation, but maybe we don't want to use a word like that" (Sir Ronald Cohen, 2010).*

But this is based on an old fashioned view of privatisation dating back to the Thatcher era when privatisation was primarily about the sale of nationalised industries, state owned companies, land and property. Once large-scale asset sales proved economically and politically difficult or impossible, attention switched to other more diversified and small-scale forms of privatisation that created new pathways. They include the fracturing of public education and health systems into stand-alone school and hospital 'businesses'; the transfer of services to trusts, social enterprises and arms length trading companies; and community rights to bid, buy, build, provide and personal budgets to enable users to purchase services (Whitfield, 2012a). As noted earlier, this is defined as the mutation of privatisation (Whitfield, 2012b).

Social impact bond projects are very definitely privatisation.

PFI/PPP projects have effectively privatised the design, finance, construction and maintenance of much public infrastructure. Now social impact bond projects potentially privatise the design, finance, service delivery, management, monitoring and evaluation of early intervention and prevention policies.

It is privatisation by stealth - *"Instead of making a profit to help the most vulnerable, the goal becomes making a profit from the most vulnerable"* (NUPGE, 2014). Social impact bond projects go a step further because they part-privatise commissioning, contract management, monitoring and evaluation.

Social impact bonds are an integral part of the four processes of neoliberal transformation of the public sector and welfare state, namely financialisation, personalisation, marketisation and privatisation (Whitfield, 2012a).

3.6 Fracturing and privatising the state

In the last two decades UK public bodies have transferred many public services to arms length organisations and companies to deliver core services. They included Arms Length Management Organisations (ALMO - council housing), Local Authority Trading Companies (LATC - social care, education support services, adult disability and learning services), Arts and Leisure Trusts, Foundation Trusts (NHS hospitals) and social enterprises.

Common objectives included reducing budgets and imposing spending limits, transferring employment responsibilities to reduce the cost of labour, increased efficiency through a more business approach, and to weaken direct accountability and responsibility for service delivery. Weakening trade union organisation was usually an undeclared objective.

ALMOs were structured by central government to drive the transfer of council housing from local authorities to housing associations. NHS Trusts were pressured to become Foundation Trusts with greater freedom to organise services, invest and retain financial surpluses and employ staff on the Trust's terms and conditions. Local Enterprise Partnerships are business led partnerships funded by central government, created when Regional Development Agencies were abolished in 2011, as the key agency responsible for economic development and infrastructure investment.

Social impact bond projects introduce new principles to the arms length model:

- Reliance on private investors and a commercial rate of return.
- Intermediary organisations or companies are not directly accountable or transparent.
- Key public functions are ceded to the intermediary organisation or company.
- Payment-by-results contracts increase financial motives, because the public sector repays private investors depending on achieving prescribed outcomes.
- Widens the role of financial institutions, contractors, consultants and social enterprises in the delivery of public services.

But even an extended arms length relationship is not satisfactory for some. The New Zealand Initiative recommended philanthropists *"…replace the role of government as commissioner and financer of social impact bonds"* and to avoid monitoring regimes that *"…impose burdens on service providers that unduly impair their capacity to achieve performance targets"* (Jeram and Wilkinson, 2015).

DUAL ROLE FOR GOVERNMENT?

The impact investing lobby and social impact bond advocates perceive a dual role for government:

> *Governments are uniquely positioned to be both market actors and market stewards……There is a role for government alongside other actors to encourage flows of capital and enterprise development. They also have a role to play in building sector capacity and encouraging the development of innovative solutions, enterprise and intermediaries (Impact Investing Australia, 2014).*
>
> *Policy action and regulatory clarity is also critical for encouraging a greater number of investments and removing the existing barriers to market development (ibid).*

This is, of course, predicated on private capital and impact investors having the freedom to select where they want to invest to maximise the return on investment, whilst government retains responsibility for the population not served by social impact bond projects i.e. the population with more complex and 'unprofitable' needs. In other words, there is a high level of dependency on the state to facilitate 'profitable' social impact bond projects, whilst continuing to publicly finance public services to meet social need.

Social impact bond projects might be perceived as a new form of performance orientated public private partnership, alongside payments by results and PPP contracts. However, this ignores the specific structure of social impact bond projects and the reduced role of government in commissioning and managing contracts, monetising outcomes and the inclusion of core public services. They are more likely to set a precedent for more extensive privatisation than 'partnerships'.

The UK Cabinet Office social impact bond contract guidance recommends that the complexity of the project should not be disproportionate to the anticipated benefits and payments and *"…reward the service providers at all levels of outcome delivery (i.e. there are no points where it ceases to make economic sense for a party)"* (Cabinet Office, 2013b).

The OECD warned that it is *"…hard to "compete" with the State and too much involvement from the government can impede the development of the social investment market"* (OECD, 2014a). A further study suggested, *"…the public sector can play a catalytic role in the social investment market in terms of creating a conducive regulatory environment, encouraging greater transparency and taking concrete steps to help develop the market"* (OECD, 2015).

BLURRED BOUNDARIES

The imposed division between commissioner and contractor is likely to become blurred in social impact bond projects. The New York State Recidivism and Workforce Development Pay-For-Success Project, (US$13.5m investment by 40 investors including Bank of America Merrill Lynch clients) is delivered by the Center for Employment Opportunities (CEO). It earlier had a series of standard recidivism contracts with the State.

New York State *"…has become an active partner in performance management in order to achieve the desired project outcomes".* The Department of Corrections and Community Supervision *"…identifies recently released individuals deemed at high risk for recidivating and proactively refers them to CEO. Parole officers work alongside CEO outreach specialists to discuss the value CEO's services and reinforce the importance of actively engaging with CEO to prepare for work and meet the conditions of their parole. An active governance structure oversees the project including participation from officials as high up as the Deputy Commissioner of Community Supervision"* (Pay for Success Learning Hub, 2015a).

The Department claims *"…government involvement is "not micromanagement, but the granular support that actually is required" to ensure that CEO's program can achieve its maximum potential impact"* (ibid).

Fundamental contradictions arise when there are dual objectives to reduce reoffending *and* to maximise the financial return for private investors. On the one hand, it indicates a degree of 'dependency' on government, which many social impact bond advocates may be reluctant to admit, because of their stance on 'government failure'. It might lead others to change their stance on the strict operational separation of government, intermediary and contractor roles. On the other hand, it could be classified as another form of corporate welfare.

The traditional boundary between core and non-core staff is also blurred. A three-part classification is more appropriate: 1) core staff such as teaching and medical; 2) semi-core such as skilled staff undertaking professional and technical tasks related to and in support of core services; 3) non-core staff such as administrative, corporate and facilities management services. Social impact bond projects currently employ staff in categories two and three. But this could change if boundaries between the categories become blurred. Continued public service transformation could create opportunities for contractors to include core services and staff.

3.7 Valuing public goods and services

The expectation of a financial return or profit from property investment and home ownership, or buying shares in companies listed on the stock exchange, is considered 'normal' in capitalist economies. More recently profiting from public infrastructure such as hospitals, schools and the criminal justice system has widened through PPPs and the franchising of public transport. Outsourcing has led to larger, multi-service, long-term contracts for support services.

Social impact bonds extend the expectation of financial returns or profit to the provision of core social services, health and education. This is a fundamental change. It introduces profiteering into services for those most in need, such as children in preschools and prisoners awaiting release.

A more specific and targeted approach is required because the use of 'public value' and 'public benefit' should be minimised, as they are vague and non-specific. Policies and strategies to tackle poverty and inequality must be specific, targeted, accountable and fully resourced. Dahl and Soss (2014) warn that *"…the public value concept risks producing a new variant of neoliberal rationality, extending and strengthening the de-democratising, market-oriented project that its proponents seek to overturn."*

Evaluation methods, such as 'value for money', are dominated by financial criteria and should be replaced by cost benefit analysis inclusive of economic, social, equality and environmental impact assessment and supported by a new set of criteria. The 'social return on investment' methodology can also be used to assess the value of social investment when it is based on this comprehensive and rigorous approach.

The assessment of outcomes must be aligned with the assessment of the quality of inputs, processes and outputs, because they are proven key aspects of public service quality (Whitfield, 2015).

3.8 Embedding corporate welfare

The impact investing sector is almost certain to become part of the wider corporate welfare system relying on the same contracting system, same or similar tax and financial breaks, and a similar system of lobbying. Furthermore, it presents an opportunity for large companies to promote corporate social responsibility, new philanthropy and the social benefits of business and finance capital. What better way to help the financial sector recuperate from the banking scandals!

Much of the impact investing literature is critical, and in some cases denigrates, public services, as a means of promoting the case for social impact bonds. Given the neoliberal ideology reflected in this literature, it comes as no surprise that impact investors want a raft of measures and public funding to support their activities that will further extend the corporate welfare state. They want governments to create an 'enabling environment' to include reducing corporate tax rates for impact investments (see Table 5 for UK example) and include:

- Funding social enterprise start-ups (UK Cabinet Office).
- Funding initiatives to increase development bonds (UK, USA).

- Procurement incentives.
- Funding the impact investment market infrastructure – Social Finance, Big Society Capital.
- Funding and assisting the promotion of impact investing and social/development impact bonds through task forces and other promotions (Rodin and Brandenburg (2014).

The question is not whether, but the extent to which, private contractors will gradually takeover the current role of non-profit and voluntary organisations contracting in social impact bond projects, which could lead to higher costs and demand for bigger savings.

This is another form of dependency on government, otherwise known as corporate welfare (Farnsworth, 2014, Whitfield, 2012a), in which governments provide tax credits, guarantees or subsidies, technical assistance, a friendly regulatory environment, policies to increase the supply of capital, strengthen demand, encourage greater transparency, enable entrepreneurship and develop the market (OECD, 2014a). Social impact bond projects seem certain to require various elements of corporate welfare to make projects sustainable and to create and support a 'market' (see Part 4).

4 Economic flaws in social impact bond and Paying for success projects

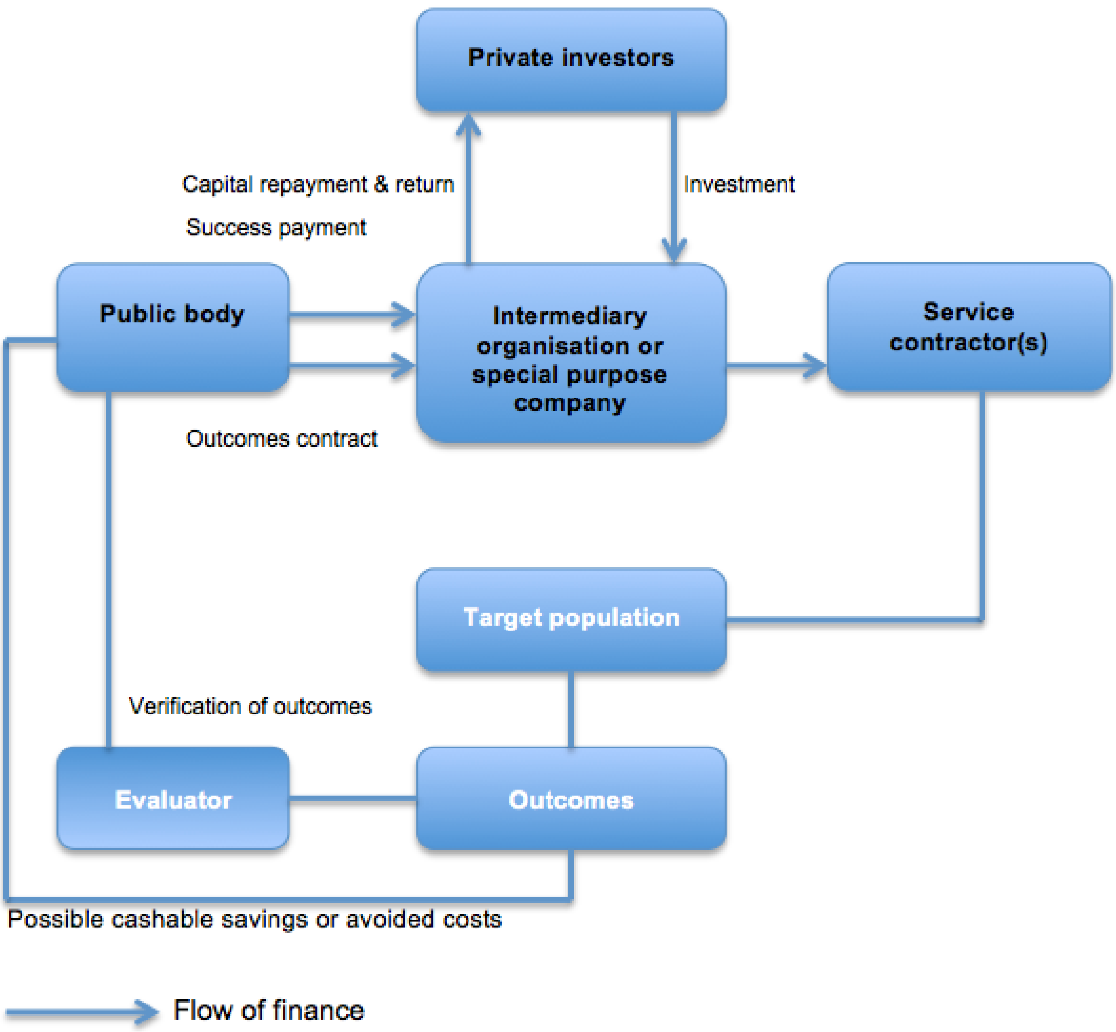
This section examines the structure of social impact bond projects, outcomes, payment-by-results, risks, innovation, equalities, public costs and savings, corporate welfare, free trade agreements concluding with a summary of the financial and public policy flaws inherent in social impact bonds.

4.1 The structure of social impact bond projects

The basic structure of a stand-alone social impact bond project is illustrated in Figure 2. Once a proposal for a project is agreed in principle, an intermediary organisation is selected or a special purpose company is set up (similar to PFI/PPP projects) which is responsible for concluding a project agreement with the public body, attracting investors, procuring and appointing service contractors and an 'independent' evaluator. Jointly commissioned social impact bonds have more complex structures that are illustrated in Tan et al (2015).

The flow of money in social impact bond projects is illustrated by the arrowed lines with investors providing funding for the operational costs of the intermediary and contractors. Investors are repaid by the public sector via the intermediary according to performance assessed by the evaluator.

Figure 2: The structure of social impact bond projects



The components of a social impact bond:

- Selection of a service
- Target group of the population
- Evidence-based outcomes
- Private Investors
- External intermediary or special purpose company
- Service provider(s)
- Independent evaluation
- Monitoring and scrutiny by special purpose company
- Public sector innovative option deliberately excluded
- Repayment by government or public body
- Potential public expenditure savings

Social impact bonds are not suitable for all services. They are deemed not *"…appropriate where there are no benefits associated with transferring risk to an independent provider or private investors, or when better social outcomes cannot be reliably linked to a particular program"* (Government of South Australia, 2013).

CONTRACTORS

Social enterprises, other non-profit organisations and charities are the main contractors in social impact bond projects. Their long-term involvement in projects, particularly if they seek to become contractors in several projects, will inevitably raise new risks and the threat of commercialisation.

> *…paradox facing successful hybrid organizations that mix market and social service logics. Their very success in the marketplace attracts competitors, some of which are for profit. Entry of firms and other organizations increases the pressures on the hybrids to retain their market position, further commodifying their clients (Garrow & Hasenfeld, 2014).*

Social carpetbaggers could emerge to try to turn social enterprises and non-profits down a more commercial path by forging partnerships with private contractors or conversion to public limited company status.

4.2 GLOBAL SPREAD OF OPERATIONAL SOCIAL IMPACT BOND PROJECTS

As previously stated, there are currently 54 operational social impact bond projects with about 23 more at the design stage. Disadvantaged families and young children and getting young people into employment are the two largest groups of projects which account for 54% of projects, followed by six projects keeping children out of the care system, five reducing homelessness and others reducing reoffending, early childhood education and healthcare (see Table 3).

Table 3: Global range of social impact bond projects

Type of service	UK	USA	AUS	CAN	DEU	NLD	BEL	IRE	PRT	IND	KOREA NS	PER	CHE	Total
Reduce reoffending	1	3												4
Disadvantaged families & young people	12		1											13
Young people into employment	11				1	2	1						1	16
Children out of care system	4	1	1											6
Early childhood education		2							1	1				4
Healthcare	3	1												4
Reducing homelessness	1	2		1				1						5
Reducing elderly suicides											1			1
Economic development												1		1
Total	32	9	2	1	1	2	1	1	1	1*	1	1	1	54

Sources: Instiglio 2015,
Abbreviations - OECD, 2015; UK = United Kingdom; USA = United States of America: AUST = Australia; CAN = Canada; DEU = Germany; NLD = Netherlands; BEL = Belgium; KOREA-NS = South Korea; IRE = Ireland; PTR = Portugal; IND = India; PER = Peru: CHE = Switzerland;
** Development impact bond*
Note: 1 UK project (Peterborough Prison) and 1 US project (New York City Rikers Island) both recidivism projects have been terminated.

Of the 23 projects at the design stage, eleven are located in the USA, five in Israel, and one each in Australia, Chile, Columbia, New Zealand, South Africa, Uganda and the UK (Instiglio, 2015). Table 4 contains a sample of 17 projects to illustrate the range of investors and the financial investment in social impact bond projects.

Table 4: Selected social impact bonds

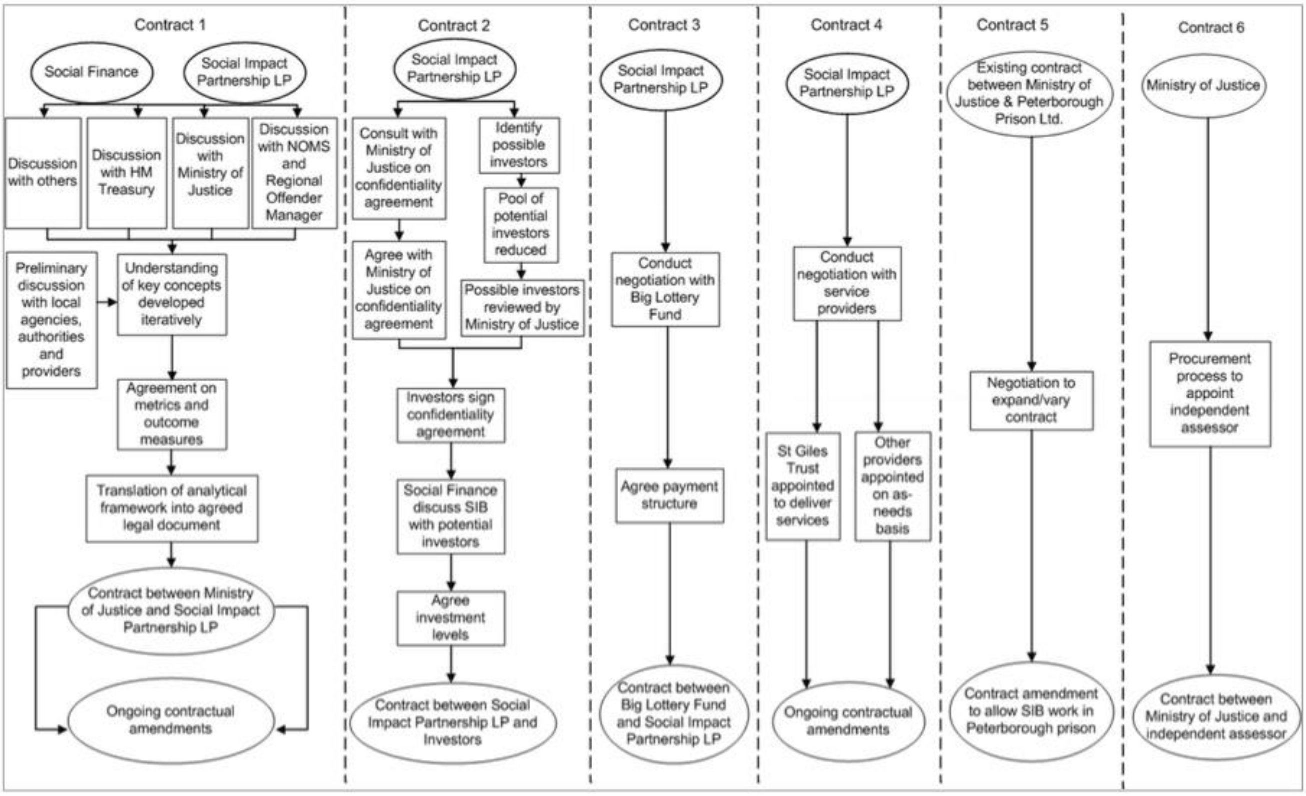
Country	Public body	Project	Contract duration (years)	Investors	Invest-ment (m)
UK	Ministry of Justice	Peterborough Prison – recidivism	8	Barrow Cadbury Foundation, Esmée Fairbairn Foundation, Friends Provident Foundation, Panahpur Charitable Trust and Tudor Trust	£5.0
UK	Newcastle West Clinical Commissioning Group	Long-term health conditions	7	Bridges Ventures private investment, Big Lottery Fund, Cabinet Office's Social Outcomes Fund	£1.6
UK	Essex County Council	Preventing children going into care	5	Big Society Capital and Bridges Ventures private investment	£3.1
UK	Greater London Authority	Reducing Homelessness	3	CAF Venturesome and St Mungo's Broadway	£1.0
UK	Department of Work and Pensions	Youth unemployment	3	Bridges Ventures private investment, Big Society Capital, Impetus Trust, Esmee Fairbairn Foundation, CAF Venturesome, Barrow Cadbury Trust	£3.3
USA	New York City	Department of Corrections – recidivism	4	Goldman Sachs Bloomberg Philanthropies $7.2m grant to reduce lender's risk	US$9.6
USA	New York State	Recidivism	5.5	Bank of America Merrill Lynch and Social Finance – over 40 investors & foundations	US$13.5
USA	Cuyahoga County	Homelessness and child welfare	5	The Reinvestment Fund, George Gund Foundation, Nonprofit Finance Fund, Cleveland Foundation, Sisters of Charity Foundation	US$1.6
USA	Chicago Public Schools & City of Chicago	Early childhood education	4	Goldman Sachs Social Impact Fund, Northern Trust Company, J.B. and M.K. Pritzker Family Foundation	n/a
Australia	New South Wales State Government	Family support services & keep children out of care	10	Benevolent Society Bond Westpac Bank and Commonwealth Bank of Australia raised funds from investors	A$10.0
Australia	New South Wales State Government	Returning children in care to families	7	Newpin Bond Various investors	A$7.0
Canada	Saskatchewan Government	Housing and support for single mothers	5	50%/50% from Private investor and Conexus Credit Union	C$1.0
Ireland	Dublin City Council	Homelessness	1	n/a	€0.5
Germany	Bavarian State Ministry of Labour & Social Affairs, Family and Integration, Augsburg	Education and employment for young people	2	BHF-Bank Foundation, BonVenture, BMW Foundation Herbert Quandt, Eberhard von Kuenheim Foundation	€0.2
Netherlands	Rotterdam City Council	Young people to find work	2	ABN-AMRO Bank and Start Foundation	€0.7
India	Rajasthan	Enrol 5,000 out-of-school girls into public primary schools	3	Investor is UBS Optimus Foundation & Children's Investment Fund Foundation is outcome payer	US$1.0
South Korea	Seoul Metropolitan Government	Child welfare services	3	KDB Daewoo Securities	US$9.4

Source: Instiglio, 2015 and project briefings.

4.3 Contract complexity

The structure of social impact bonds is often more complex than a standard outsourcing contract between a client and a contractor (Figure 3). The intermediary organisation or Special Purpose Company (SPC) is responsible for the procurement of contractors, in this example case the Peterborough Prison recidivism project. Lawyers representing the different parties feature in each box in Figure 3 thus contributing to the high transaction costs of social impact bond projects.

Figure 3: Complex process of negotiating and drafting the Peterborough SIB contract



Source: Disley et al, 2011.

4.4 Measuring outcomes

The outcome of policies and projects are important – who they benefit, which strategies are effective, whether they are sustainable and cost effective, how they can be applied on a wider scale and to different groups of people in need. Assessing outcomes requires determining cause and effect of policies and programmes. This is complex because a benefit may have been a result of a combination of several different policies or socio-economic factors that are difficult to quantify, measure or to determine their relative effect. Measuring outcomes is far harder than is usually acknowledged. Furthermore, the consequences of policies and practices may not be evident for some time.

Public sector practice in assessing the social, economic and environmental impact of policies and projects before decisions are made is often superficial (Whitfield, 2009 and 2012a). The Brookings Institution research concluded that social impact bonds have focused *"…on areas where service inputs are fairly complex but outcomes are simple to measure, such as homelessness, foster care, and prison recidivism"* (Gustafsson-Wright et al, 2015).

The quality of inputs, such as the skills and experience of the workforce (and thus their terms and conditions), the working methods or processes and the equipment/materials used to deliver services are also vitally important. The way in which the process of service delivery treats service users, eliminates discrimination and reduces inequalities is similarly important. The quality of outputs is sometimes critical, such as new housing development. All the criteria – the quality of inputs, processes, outputs and outcomes – are important. Furthermore, a Brookings Institution analysis of 38 social impact bond projects revealed - *"Many of the deals (primarily the impact bond fund funds in the UK) have output rather than outcomes as their payment triggers"* (Gustafsson-Wright et al, 2015).

The Wiltshire Council 'Help to Live at Home' service is widely regarded as a model example of an 'outcomes-based approach' to social care launched in 2012 (NHS Wiltshire Clinical Commissioning Group and Wiltshire Council, 2013 and Bolton, 2012). The service includes an integrated equipment and telecare service and out-of-hours response service. Staff from the Wiltshire re-ablement and housing support teams also transferred to new providers. Contractors are paid on a performance-by-results basis. The service design process included extensive consultation with service users, staff and contractors. The Council recognised that the new approach required contractors with a wider range of skills and flexibilities. Eight district contracts were awarded to four contractors. *"Wiltshire also intended the approach would be based on a more professional approach to care, with salaried workers guaranteed at least the living wage. This has been achieved in parts of the county"* (Bolton, 2015). It is evident that quality of inputs and processes were required to obtain the desired outcomes.

The reconfiguration of public services to increase early intervention and prevention, increasing innovation, building the evidence base, increasing the effectiveness and value of public services are not exclusive to impact investing or to social impact bonds, nor is there any evidence that 'outcomes funding/private finance' be effective without negative consequences.

'Outcomes funding' with private finance is promoted on the grounds that it addresses fiscal pressures caused by austerity policies, increases 'alternative service delivery' such as outsourcing, supports the decentralisation agenda and is necessary, because expenditure on statutory crisis services crowds out discretionary spending on early intervention and prevention (Gold and Mendelsohn, 2014). These observations are thus accepted as positive or non-challengeable and actual. In the age of neoliberalism, politicians, public managers and consultants frequently adopt 'new' methods of service delivery without due diligence and/or an evidence base.

The almost exclusive focus on outcomes implies that the replacement of public by private finance has a minimal effect on the input of financial resources. This is not the case. Private finance in the public sector means:

- Higher cost of borrowing and imposes market rate of return (profit)
- Service delivery by private contractors
- Emergence of secondary markets to trade investments
- Sustainability threatened if investments are sold to new owners with different priorities
- New risks for government and public bodies, staff and service users
- Threat of public sector principles and values being replaced by commercial values
- Social justice and equalities marginalised
- Investor self interest
- Loss of democratic accountability and transparency

The method of comparison and evaluation is crucial, particularly when the performance of social investment projects is compared with 'business as usual' public services. A like-with-like comparison is essential, which requires a comparison with innovative and improved public services.

Gaming tactics such as 'cream-skimming' and 'cherry-picking' describe contractor strategies of selecting high value or low-cost customers, who are more profitable to serve. The other tactic is to 'park' or avoid the treatment of harder-to-help clients (Whitfield, 2012c).

> *The more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor (Campbell's Law, after Donald T. Campbell, quoted in Pratt, 2013).*

The outcomes debate also raises questions: What happens to the people who are not 'turned around'? Are they provided with additional and more intensive support? What happens to those who are ‘turned around’, but fall back into previous modes of activity or behaviour after a short time or after the project is completed?

The need for a counterfactual and alternative option

The performance of a social impact bond project is determined by comparing its performance with a ‘control group’ usually consisting of ‘business as usual’ public service(s) elsewhere. For example, In the Peterborough prison project:

> *…offenders in the three cohorts will be compared to matched control groups. Each control group will be drawn from all prisoners released from sentences of less than 12 months, within the same time period from other prisons nationally. One-to-many propensity score-matching will be used to select the control group: this means that each cohort prisoner will be matched to up to 10 control group prisoners (Disley et al, 2011).*

The evaluation matched 936 offenders released from Peterborough with 9,360 released from 34 other prisons in England and Wales (Jolliffe and Hedderman, 2014).

Achieving comparability between the project cohort and the control group is vitally important, but social impact bond project performance was compared with performance at prisons that had not been subjected to ‘innovation and improvement’. There appears to have been no attempt to compare Peterborough with a smaller group of prisons where probation staff had implemented innovative policies to reduce reoffending.

The importance of having a counterfactual (what would happen without the project and the status quo is maintained) is considered an important step in developing a social impact bond project (Tomkinson, 2015). Whilst developing a counterfactual is a standard part of economic and social analysis, it is being misused by social impact bond projects, because it excludes a like-for-like comparison between the proposed social impact bond and an innovative and improved public service option. In fact, social impact bonds have to avoid comparison with innovative in-house public sector options otherwise their supposed benefits would decline or disappear, making them financially unviable. Some public sector bodies collude with this approach because they are motivated by short-term buy-now, pay-later investment. This follows the same approach begun by PFI/PPP projects and could lead to similar debt and financial crises in public sector revenue budgets (Whitfield, 2010). The social impact bond literature assumes that an innovative and improved in-house public service option is not possible or viable.

A similar approach is used in most outsourcing and PPP strategic partnership procurements where a ‘do nothing’ or status quo in-house option is compared to a ‘new’ outsourcing option (European Services Strategy Unit, 2015b). Inevitably, the in-house option is rejected and the private sector does not have to compete against a public sector alternative. PPP/PFI projects use the same approach using a public sector comparator or value for money analysis (Whitfield, 2010).

The social impact bond model is built on claims of savings – similar to those made for outsourcing and privatisation. But savings are frequently exaggerated and often fail to meet financial targets (European Services Strategy Unit, 2015a). The comparison with the status quo is essential to identify ‘savings’ and ensure profits to investors. If the comparison were with public services that had been reconfigured and improved, savings would be unlikely or minimal, hence no financial return and no social impact bond projects.

In summary, the key issues are:

- The quality of the evidence base, availability and comparability of data.
- The selection of a comparator or control group that enables like-for-like comparisons.
- Recognition of the difficulty in identifying the cause and effect of policies.
- Assessing the sustainability of outcomes.
- Identifying the potential knock-on impact on other public services.
- Involvement of service users and employees on a continuing basis including the assessment of outcomes.
- Organisational capacity and capability to monitor, measure and to evaluate.

- Ensuring that social investment finance intermediaries do not set the agenda in the interests of funders and contractors marginalising public interest and democratic accountability.

Box 4: US States reduce recidivism 2007-2013 without social impact bonds

Eight US states reduced recidivism rates by 5.8% - 19.3% for adults released in 2007 and 2010 in the three-year follow up period. For the 2010 release group it meant 5,573 fewer people returned to prison in the following three years. An earlier analysis of seven different states revealed reductions of 6% - 18% in recidivism rates for those released in 2005 and 2007 for the three-year follow up period (Council of State Governments, 2012 and 2014). The reductions in recidivism were achieved by:

- Public investment in community-based treatment
- Promoting continuity of care from incarceration to the community
- Tailoring approaches to individual needs
- Providing incentives for participation in programs designed to reduce likelihood of a person reoffending
- Re-entry planning and intensive supervision
- Improving the response to people who violate conditions of probation
- Providing continuity of care to people with mental health needs released from prison
- Data collection and performance measurement (Council of State Governments, 2014).

The Second Chance Act 2008 provides federal grants to government agencies and non-profit organisations to provide services and support to reduce reoffending. However, these policies have limited effect for over 10,000 prisoners who have been shipped across state lines to private prisons outside their home state (Grassroots Leadership, 2013).

Note: the population of state and federal prisoners reached a peak in 2009/2010 and fell slightly in the next two years. The 2012 incarceration rate was 707 per 100,000, over four times the 1972 rate (The Growth of Incarceration in the United States: Exploring Causes and Consequences, National Academies Press, http://www.nap.edu/catalog/18613/the-growth-of-incarceration-in-the-united-states-exploring-causes).

4.5 Savings analysis

The need for social impact bonds/pay-for-success to achieve public expenditure savings has been stressed in earlier sections. Savings from improved outcomes fund the payments to investors or fund contractors in payment-by-results projects. They must be 'cashable' savings, which is determined by whether savings reduce current costs, whether they are fixed or variable, the service is provided in-house or outsourced, the degree of 'backfill' (reduced need for one group may be backfilled by previously unmet need from elsewhere, and the political acceptability of decommissioning services (Cabinet Office, 2012). The double counting of savings must be avoided, particularly where there are overlapping programmes (ibid).

The identification and quantification of financial savings is more complex than for outsourcing, because they are related to identifying the cause and effect of outcomes. Savings may be spread across several government departments and/or shared with other public bodies. There is a paucity of data available of actual cost savings in social impact bond projects, because none have completed their contract.

The process of identifying and quantifying savings raises five key issues.

Firstly, although savings are used as a prime justification for outsourcing public services, the original savings claims are rarely achieved. End-of-contract audits are seldom undertaken. Monetising the value of outcomes was noted in Part 3. It requires agreeing a fixed sum of money for each outcome. The value of the outcome could be determined by expected cost savings in service provision; productivity savings, for example a reduction in unit costs, would enable more people to receive the service; social or ancillary benefits could arise in other services (Accenture, 2015). The process will be more complex when cost savings have to be shared by other departments or public bodies.

The UK Department of Work and Pensions developed a Rate Card for social impact bond projects for payment when outcomes are achieved via the Innovation Fund and Fair Chance Fund (HM Government, 2012). They range from improved attitude towards school (£700), improved behaviour (£1,300) and improved attendance (£1,400). Four rates for qualifications ranged from entry-level qualification (£900) to National Vocational Qualification level 3 or equivalent (£5,100). The rate card has two payments for employment - entry into employment (£3,500) and sustained employment (£2,000) with a maximum payment per individual of £11,700 (based on 3 years of Annually Managed Expenditure savings). Different rates were introduced for years 10 and 11; years 12 and 13; years 14 and 15; aged 16 plus; and aged 18 and over (Department of Work and pensions, 2013).

Monetisation is taken to a new level with a unit cost database that estimates the cost/saving, economic and social costs of outcomes in education and skills, employment, health, housing and social services (New Economy, 2015). Providing an evidence base is useful, but there is enormous scope for misuse and misunderstanding in the current political climate. There is little economic and social cost/saving data available.

There is little evidence of savings achieved in the Peterborough Prison social impact bond. The project was limited to prisoners serving a one-year or less sentence. Many of the participants had served only a few weeks or months in jail. This cohort was selected because they had a high level of reoffending, potential savings were identified and no statutory services were available to this group of prisoners (Disley et al, 2011). The Peterborough project *"…is not likely to result in substantial cashable savings to the Ministry of Justice or other government departments, which can be achieved only through significant reductions in the prison population or the number of court cases"* (ibid).

Secondly, the calculation of savings depends on having a control group to determine the difference in performance. The lack of comparison with an innovative and improved public service option is another dimension yet to be tested. In theory, savings will continue for many years after a social impact bond contract is concluded, but how should they be calculated? One widely promoted example was based on a three-year contract with savings assumed over 12 years and presumed no changes in economic/social/health conditions over 12 years (McKinsey, 2012).

Thirdly, savings only have validity if they are verifiable and include all the public costs, such as transaction, reconfiguration and legacy costs plus the grants, subsidies and tax concessions for social impact bond projects (see Table 5). Difficulties in determining how savings should be measured and calculated, outcomes measured and selection of a financial model rather than a broader economic model, were examined in the development of the Newpin bond in New South Wales (KPMG, 2014).

The UK Youth Justice Reinvestment Custody project negotiated demand metrics of the potential achievable savings to the Ministry of Justice, by a reduction in the unit cost of a metric. For example, a custody conviction was priced at £440 and £270 for drug treatment connected to Community Orders and Suspended Sentence Orders, held constant for the two-year pilot period. However, *"…they do not represent estimates of how much it costs to deliver these services. Different prices were reduced by different factors based on an assessment at the time of the likely realisable savings associated with different disposals and this means it is not possible to use these prices to estimate the relative costs of one disposal against another"* (Wong et al, 2013).

Fourthly, the sustainability of costs and savings forecasts are highly influenced by the reconfiguration of services, policy and public sector spending changes that reflect broader political and economic conditions.

Finally, concerns about the quality of the evidence base used to identify and measure outcomes, costs and savings have been expressed. This is applicable across the public sector and is not specific to social impact bonds or pay-for-success projects, although it has a more immediate impact when contracts are being negotiated.

A US cost benefit model of early years programmes developed by the Washington State Institute for Social Policy has been adapted into a UK model, funded by Birmingham City Council, the Association of Greater Manchester Authorities and the Youth Justice Board. The model assesses the effectiveness of programmes against the *"…high standards of scientific evidence"*, costs and benefits are calculated to produce a ranking of public policy options, *"…a 'portfolio' analysis reveals how a combination of policy options affects outcomes, costs and benefits,"* and risks are measured *"…by testing how bottom lines vary when estimates and assumptions change"* (Social Research Unit, 2013). The monetisation of labour costs in valuing outcomes is discussed in Part 5.

Financial and cost benefit models invariably require estimates, forecasts and rely on earlier demand, use and cost evidence that have to be time-adjusted. The wider use of social impact bonds and the need for 'evidence' could lead to over-reliance on such models.

The Ministry of Justice *"…undertook detailed analytical work to support the values assigned to each reduced reconviction event"* using data on costs incurred at different stages and took account of social benefits of reduced reoffending (Disley et al, 2011). The tariff was agreed after considerable negotiations with investors and Social Finance, and ultimately signed off by HM Treasury as representing 'value for money'. The value for money analysis was never published, so setting another pattern of no transparency or democratic accountability.

Public services considered suitable for social impact bonds are highly vulnerable to the effects of economic recession. Social change and increasing mobility leads to difficulties in tracking individuals who have participated in projects. Attributing savings between government departments and local public bodies is also complex. Thus it is difficult to calculate the net present value of long-term public sector savings, a practice used for PPP infrastructure assets, because they are static and generally retain their function.

4.6 Payment-by-Results

Government outcomes-based payment schemes preceded social impact bonds, so it is important to draw on their performance. An assessment of UK Payment-by-Results (PbR) contracts in four government departments (Work and Pensions, Communities and Local Government, International Development and the Ministry of Justice) with total budgets of nearly £6bn, concluded:

> *…PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence.*
>
> *…neither the Cabinet Office nor HM Treasury currently monitors how PbR is operating across government. Nor is there a systematic collection or evaluation of information about how effectively PbR is working. Without a central repository of knowledge and a strong evidence base to refer to, PbR schemes may be poorly designed and implemented and commissioners are in danger of 'reinventing the wheel' for each new scheme (National Audit Office, 2015).*

The NAO also concluded that PbR is not suited to all public services; its costs and risks are often underestimated; contractors must have the capacity to take on risks; clients or commissioners must actively monitor and manage contractor performance and evaluate the effectiveness of PbR; and consider alternative delivery mechanisms (ibid).

An international review of payment-for-performance (P4P) schemes found *"…little evidence on the cost effectiveness of schemes"* (Lagrade et el, 2013). The review found the incentivising effect of P4P schemes was mixed in both health and education;

> *When reforms are implemented nationwide, there is no obvious comparison group to compare the changes in outcomes observed before and after the introduction of the P4P scheme. Without a counterfactual, it is difficult to ascertain whether the changes observed are the result of the introduction of the new scheme, or would have happened anyway. Many changes over time can affect the settings where P4P is introduced and confound the estimated impact. P4P in health care is particularly vulnerable to such problems, as unrelated changes in medical technology, clinical practice or payment methods occur continuously and are likely to affect outcomes of interest positively or negatively (Ibid).*

In addition:

> *When outcomes are determined not only by providers' decisions but also by health systems' structural characteristics (e.g. poor accountability and governance) or patients' behaviours or lifestyles, incentives targeting providers may not be the more relevant interventions to improve health (ibid).*

The design and performance of the payment-by-results UK Troubled Families Programme has been heavily criticised (Crossley, 2015a, 2015b, 2015c; Portes, 2012 and 2015; Levitas, 2014; Garside, 2013).

The government claimed that 105,671 'complex families' had benefited from support by local authority teams by February 2015, saving taxpayers an estimated £1.2bn compared with the £448m cost of the programme (Department for Communities and Local Government, 2015). The £1.2bn claim was described as *"…pure, unadulterated fiction"* by Jonathan Portes, the Director of the National Institute of Economic and Social Research, because it appeared to be based on very rough, self-reported estimates by seven local authorities of the cost of services before and after the intervention (Portes, 2015).

The government launched the programme in 2011 using an earlier 2007 estimate of 117,000 families in England who were vulnerable and 'at risk'. This was defined as families who suffered five out of seven forms of deprivation: no parent in the family is in work; the family lives in poor quality and/or overcrowded housing; no parent has any academic or vocational qualifications; the mother has mental health problems; at least one parent has a long-standing limiting illness, disability or infirmity; the family has low income (below 60% of median income); the family cannot afford a number of food and clothing items. But *"…none of these criteria, in themselves, have anything at all to do with disruption, irresponsibility or crime"* (Portes, 2012) which were later used to define 'troubled families'.

The Troubled Families programme defined 'troubled families' as those who: are involved in youth crime or anti-social behaviour; have children who are excluded from school or regularly truanting; have an adult on out-of-work benefits; and cost the public sector large sums in responding to their problems. Drug and alcohol dependency were excluded.

In June 2013 the government announced *"An additional £200 million will be invested to start to extend intensive help to 400,000 high risk families to get to grips with their problems before they spiral out of control"* (Department for Communities and Local Government, 2013).

The programme had a remarkable 'total' performance success rate:

> *Not one local authority has needed to work with more than their indicative number in order to 'turn around' all of their families. In fact, many local authorities can demonstrate a 100% success rate not just in identifying and working with 'troubled families' but in turning them around. Manchester, for example have identified, worked with and turned around a staggering 2385 'troubled families'. Not one has 'slipped through the net' or refused to engage with the programme. Leeds and Liverpool have a perfect success rate in each 'turning around' over 2000 'troubled families' (Crossley, 2015).*

The 100% outcome performance was challenged by Crossley (2015b) as it indicated that everyone turned up and participated with 'no family left behind'. 'The perfect social policy' and *"…staggering that work with some of the most disadvantaged families who have allegedly been immune to all previous policy interventions and whose 'troubles' have existed 'for generations' has been so successful at a time of wide-ranging and deep cuts to local authorities and others public services"*.

Local authorities were incentivised to participate in the programme with a payment of £3,200 for each participating family, falling to £2,400 in 2013-2014 and £1,600 in 2014-2015 with an additional £800 for each family 'turned around'. Deep public spending cuts simultaneously imposed on local authorities accounts, at least in part, for their enthusiasm for the programme.

'Turned around' is defined as: all children have been back in school for a year when they were previously truant or excluded; and youth crime and anti-social behaviour has been significantly cut across the whole family; or an adult in the home has moved off benefits and into work for three consecutive months or more.

Turnaround implies it to be permanent, because the effect of future economic slowdowns or recessions is not recognised. It is even more a superlative performance, because the programme did not address the causes of poverty and inequality. It apparently even nullified the economic and social impact of austerity policies. The assumption of a 'permanent' turnaround is illusory.

The 'troubled families' payment-by-results programme exhibited most of the problems UK government contract guidance sought to address, namely that commissioners should consider whether a payment-by-results mechanism is appropriate if it:

- Pays too much for something that could be achieved by other, cheaper means.
- Pays too little to incentivise the desired level of performance.
- Pays for outcomes that would have happened anyway.
- Pays for the wrong outcomes through mis-specification.
- Pays significant set up costs that are not merited by the outcomes achieved.
- Creates perverse incentives in service delivery, (if what is most remunerative for the service provider and what delivers the best outcomes as a whole are different).
- Procures a service whose outcomes cannot be measured objectively.
- Exposed to undue reputational risk (Cabinet Office, 2013b).

It remains to be seen whether future payment-by-results programmes and social impact bond projects draw on this advice and the lessons identified by the NAO.

Pay-for-performance (P4P) programmes have been running in US healthcare for nearly fifteen years with limited success. More than half of the 250 hospitals in the Centers for Medicare and Medicaid P4P national demonstration project initially achieved high performance scores compared to less than a third of the 780 hospitals in a control group not in the programme between 2004-2008. After five years, the two groups' score were virtually identical (Werner et al, 2011). Another study of Medicare's P4P programme assessed 250 hospitals in the demonstration programme with 250 hospitals not in the programme between 2004-2009 and also found a slowdown in quality improvement in hospitals in the P4P programme (Ryan et al, 2012). Health Affairs (2012) reports other studies with similar findings.

Value-Added models have been used in many US states and school districts to estimate the effects of individual teachers and schools on student achievement. However, most studies *"…find that teachers account for about 1% to 14% of the variability in test scores, and that the majority of opportunities for quality improvement are found in the system-level conditions" (*American Statistical Association, 2014). They emphasize that these models *"…typically measure correlation, not causation"* and may have unintended effects if not used with care (ibid).

4.7 Performance of social impact bond and pay-for-success projects

The Peterborough Prison social impact bond was intended to cover 3,000 male prisoners aged 18, serving less than 12-month sentences, in three cohorts over eight years. The 2014 performance assessment revealed an 8.4% reduction in reoffending, but missed the required 10% reduction for an interim payment. However, a payment will be made to investors in 2016 if there is a reduction in reoffending of more than 7.5% (Social Finance, 2014).

The Ministry of Justice decided to terminate the project early because it had privatised the probation service through the Transformation Rehabilitation programme, which transferred 1,300 probation staff to a new National Probation Service and 21 Community Rehabilitation Companies in 2014 and wanted a uniform programme (Deering and Feilzer, 2015).

Evidence from a project for young people at risk of becoming not in education, employment or training achieved a 55% success rate, compared to a 30% target, in obtaining five A*- C grades in the General Certificate of Secondary Education in the East and North London social impact bond project under the Department for Work and Pensions Innovation Fund (BBC News, 2013).

The Youth Justice Reinvestment Custody Pathfinder payment-by-results project (excludes private investors) was designed to *"…improve the alignment of financial incentives in youth justice to encourage greater focus on prevention"* (Wong et al, 2015). The pilot ran for two years, initially with four local authority Youth Custody Centres for 10-17 year olds, but two withdrew after the first year. Site 1 had a target of a 10% reduction in custody bed nights and achieved 28% and 42% in years one and two. Site 2's target was a 12% reduction and achieved 40% in year two (ibid). The reductions have to be considered in the context of 12% and 33% national reductions in bed nights in England and Wales in the same period and reductions of 22% and 14% in self reported and police reported crime respectively and a 50% decrease in the number of young people in the youth secure centres between 2009/10 and 2013/14 (ibid).

NEW YORK CITY PROJECT TERMINATED

The first US social impact bond project at Rikers Island, New York City, was terminated in August 2015 after failing to reduce the recidivism rate for 16-18 year-olds detained at the prison. Eighty-seven per cent of nearly 1,700 adolescents, who were detained for more than seven days, participated in the Adolescent Behaviourial Learning Experience programme and attended at least one session and 44% reached a programme milestone. The programme focused on social skills, personal responsibility and decision-making, but it *"…did not lead to reductions in recidivism for participants"* (VERA Institute of Justice, 2015). Conditions at Rikers Island were 'particularly toxic' with a 'culture of violence' directed at teenagers, most of who were awaiting trial and did not stay long enough to complete the programme (Golden and Waters, 2015). Goldman Sachs exercised a contract option to terminate the program a year early and questioned whether governments were 'paying for failure' (Farmer, 2015).

The project used a tried and tested approach, which "…*attempted to change part of the culture inside Rikers Island by introducing an intervention for a very high-needs population for whom little to no programming was previously offered. Promoting a culture of sound decision-making and nonviolence inside Rikers was a worthwhile attempt at contributing to positive change. In addition, this project was able to generate significant buy-in from Rikers management, non-uniformed staff and uniformed staff, and school personnel*" (Manpower Demonstration Research Corporation, 2015).

Goldman Sachs originally invested US$9.6m in the Rikers Island project, but Bloomberg Philanthropies guaranteed US$7.2m of this investment (see Table 4). So when the contract was terminated, Goldman Sachs suffered a loss of US$1.2m, but Bloomberg Philanthropies lost US$6.0m!

A joint article by senior officers of Goldman Sachs and Bloomberg Philanthropies following the termination made several revealing of assertions:

> *The beauty of social impact bonds is that they allow the government to avoid paying for programs that don't work. That's in stark contrast to the status quo in government contracting today. The federal government expects to spend over $1 trillion in 2015 for human services programs to deliver everything from early childhood education, to healthcare for the elderly and special transport options for the disabled. The vast majority of these programs are funded regardless of whether they achieve their goals. Government, in most cases, simply pays for the services provided. The social impact bond financing structure turns the old model on its head. Targets are set, impact is measured and government only pays for success - with private capital carrying all the risk (Anderson and Phillips, 2015).*

> *Too often, government lacks the resources and ability to mine existing data for insights. Because data collection and analysis is fundamental to understanding whether a project worked -- and whether the investors get paid -- social impact bonds provide government with insights they would not have otherwise found following traditional approaches (ibid).*

> *…the social impact bond allowed the government to take serious steps to help find the right mixture of policy prescriptions to address a pressing policy priority in a time of budget constraints. It can be terribly difficult for government to secure financing for new programs - let alone for prevention programs, which are often the last funded and first*

cut. We're proud to have opened up a new pool of capital to enable governments to bring more promising social service approaches to young people in need (ibid).

The statements about government spending and contracts are predictable and claims of ‘new insights’ and ’new pool of capital’ are grossly exaggerated. The Urban Institute, a social impact bond advocate, made the same comment about government contracts (Milner et al, 2015).

A Canadian public sector trade union had a very different perspective:

“The failure of the Rikers Island project shows Social Impact Bonds and other pay-for-success schemes are fundamentally flawed,” said James Clancy, National President of Canada’s National Union of Public and General Employees (NUPGE, 2015).

The organization delivering the Rikers Island project admitted that, even for a relatively simple project, success or failure depends on many factors that have nothing to do with whether services funded through Social Impact Bonds projects are effective.

That explanation confirms what those of us concerned about Social Impact Bonds have been saying for sometime — that whether governments end up paying out will have little to do with whether Social Impact Bond projects made a difference (ibid).

Australia social benefit bond performance

Australia’s first social impact bond project was intended to fund the expansion of the programme run by Uniting Care to restore children in out-of-home care to the care of their families and to prevent children at risk of significant harm from entering out-of-home care. In the first year 138 families with 228 children participated in the programme to June 2014 with 28 children restored to their families and ten families supported to prevent their children entering care. The 60% restoration rate led to the first interest payment of 7.5%, based on a 15-month period (Social Ventures Australia, 2014).

In the second year 42 children were resorted to their families by June 30 June 2015 (Social Ventures Australia, 2015a). However, eight restorations had been reversed since the start of the project, but the contract did not take account of the failed restorations in the payment mechanism (Tomkinson, 2015).

A strict interpretation of the contract meant these reversals would not be taken into account in the calculation of the interest payable to the Newpin SBB Trust and ultimately to investors. If the reversals had been ignored the interest rate would have been 13.5% instead of 8.9% agreed for 2015. This led to proposals to amendment the contract, which were approved by the Newpin SBB Trust in July 2015 (Social Ventures Australia, 2015a and 2015b).

However, investor interests are all too apparent in the plan to *“…mitigate uncertainty about the potential impact of explicitly allowing for reversals on investor returns, UnitingCare has agreed that a cap should be placed on the number of reversals counted in the determination of the Restoration Rate. This cap is proposed to be 10% of the cumulative number of restorations”* (ibid). Reversals above this cap will be treated as successful restorations in calculating payments to investors.

4.8 Identifying risk

It is commonly asserted that: “*If the interventions fail and outcomes are not achieved, investors will lose money. In this way the public sector transfers to the investors financial risk associated with delivering the target social outcomes”* (Marsh et al, 2011). Despite the focus on the transfer of financial risk from the public sector to investors, different types of risks are borne by the government or public body, investors, intermediary organisation, contractors, staff and service users.

Risks include programme design, innovation, financial, pricing of risks and rewards, statistical sampling errors, scaling up risk, performance (selection, implementation and outcome risks), intermediary and contractor corporate risk, termination (policy change or contractual failure, contractor gaming tactics, reductions in terms and conditions, political, reputational, governance, transaction costs, market failure, due diligence, impact evaluation and unintended impact risks.

The contractor in at least one social impact bond project, the New York City recidivism project, was paid up front, so did not bear any performance risk.

The talking-up and exaggeration of levels of risks for investors has been frequently used to promote PFI/PPP projects and outsourcing. In practice, risk transfer to the private sector was overpriced and many risks were retained by the public sector (Shaoul, 2005, Pollock and Price, 2008).

It is not within the remit of this analysis to examine risk assessment in detail, however the following statements indicate the scope and complexity of identifying, allocating, determining probability, and pricing risk in social impact bond projects:

> *…increase the risk of commissioners choosing outcomes which do not match their wider social objectives, simply because they are available and measurable, and/or achieve significant savings (Cabinet Office, 2012).*

> *A SIB that focuses on proven interventions carries primarily execution risk related to the intervention, whereas a SIB that seeks to scale up promising but unproven interventions carries both execution risk and model risk related to the intervention, and is much less likely to attract investment (McKinsey, 2012).*

> *The vast majority of benefits associated with health services are quality of life benefits. The feasibility of a SIB would depend on the willingness of a health commissioner to pay out cash on the basis of QALY [quality adjusted life years] gains expected to accrue to the population, rather than distribute a share of cashable or resource savings (Marsh et al, 2011).*

> *Another risk is that payment by results might encourage an overly-narrow focus on the single outcome used to determine payment, rather than considering the wider scope of clients' needs which may be important to the service user and/or the wider community…….Outcome measurement becomes more challenging as the number of payment by results schemes increases, as there is a risk of overlapping provision of services making it increasingly difficult to attribute any impact achieved to individual providers funded through a SIB or other forms of payment by results (Culley et al., 2012) (Disley and Rubin, 2014).*

> *With SIB programs, welfare services are opened to the free market and the associated risks of market failures. Where price excludes intangible social benefits, SIBs fail to provide a level of quality that is not represented by market value (Princeton University, 2014).*

> *Given the difficulty of linking the evaluation of a social program to a highly complex contract centered on an outcome payment, the government may actually increase its operational risks in undertaking a SIB (State of Maryland, 2013).*

> *…direct conflicts arise between the government's priority to transfer the risk of generating outcomes to the investors and the investors' priority to receive a risk-adjusted return on their investments from the government (Godeke Consulting, 2012).*

References to 'risk adjusted market rate' (Rodin and Brandenburg, 2014) usually mean that the risk remains the same, but that investors have found a mechanism to transfer the risk elsewhere – usually to the government and taxpayers in the form of guarantees, subsidies, tax breaks or others forms of financial support.

Box 5: Chicago preschool investor protections

Chicago Public Schools (CPS) – Child-Parent Center Pay-for-Success Initiative

Goldman Sachs and Northern Trust Company (a wealth/asset management firm) are the senior lenders, with J.B. and M.K. Pritzker Foundation as subordinate investor, and have jointly invested $17m to provide 2,600 additional half-day places over four years in Chicago's successful Child Parent Centre (CPC) education programme.

> *The foundation is serving as the subordinate lender, meaning it'll take any financial hits before the banks -- which reduces the banks' risk…….As an added bonus, banks can use the social-impact bonds to boost their ratings under the federal Community Reinvestment Act (CRA), which encourages lending in low-income communities" (Sanchez, 2014).* High CRA ratings help banks avoid community opposition to merger and acquisition deals.
>
> *The CPC model has a proven track record of improving educational outcomes and lifelong trajectories for disadvantaged children in pre-school and beyond. Students who participate in the CPC program are better prepared for Kindergarten, perform better on standardized tests, are less likely to need special education services, are more likely to graduate from high school, and be successful in life (City of Chicago et al, 2014).*

If there is any doubt about innovation, the following statement from Andrea Phillips, Vice President, Urban Investment Group at Goldman Sachs, provides clarity: *"Innovative models like social impact bonds and Pay for Success programs allow the private sector to provide the capital needed to expand successful initiatives in our cities and communities"* (Northern Trust, 2014).

The loan agreement reveals "*…that the deal relies on a complicated formula that poses little risk to investors. That's due largely to the proven track record of the project's chosen preschool program, child-parent centers. In addition, investors gain good will and publicity in the deal"* (Sanchez, 2014).

A review of the documents revealed:

> *Nearly $1.3 million of the $16.6 million loan will never reach CPS. That money will go to pay a third-party project manager, audits, additional social services, and legal fees – including up to $250,000 for the investors' own legal costs.*
>
> *In addition, the city must pay $319,000 for an outside group to evaluate the project in the third and fourth years.*
>
> *According to the city's projections, CPS would pay about $21.5 million over the life of the 16-year program in payments for "savings" from fewer special education services. However, if the program is more successful than expected, CPS will have to pay more, up to a maximum of $30 million.*
>
> *The city expects to kick in an additional $4.4 million in "success payments" based on children's performance on kindergarten readiness and third-grade literacy tests.*
>
> *This means that if it's very successful, investors could get back more than double their money over the life of the program (ibid).*

Chicago City Council has not disclosed the potential level of savings.

Costs included $470,000 for the intermediary, IFF, a community development financial institution plus $75,000 for its legal fees; $200,000 to Metropolitan Family Services for parent support and training; $170,000 audit fees; $100,000 for legal fees of Chicago City Council and Chicago Public Schools; $319,000 for an evaluator – a total of $1.3m (7.6% of investment).

Children with severe disabilities, including autism, deafness, visual impairment and intellectual disability, will be excluded from the study group *"…or at any point during the course of the study is diagnosed with a severe disability"* (City of Chicago, 2014).

Outcomes will be compared with a control group of children from similar neighbourhoods who did not attend preschool at any CPS preschool or any Head Start project that is overseen by the City Council. This is another example of a flawed comparator group when performance should be tested against current CPS best practice preschools to test the performance of the social impact bond project methodology. CPS knows that preschool child/parent programmes produce significant benefits – a 41% reduction in the need for special education placements (Sanchez, 2014).

The project had a slow start. Only 297 children were enrolled by March 2015. Most children had already been enrolled at an existing preschool, which meant the project's half-day placements became full day placements thanks to the use of Federal Title 1 (education grants for the disadvantaged) and Head Start (comprehensive early childhood education and health programme) funding.

> *"More full-day classrooms bodes well for the lenders. Research shows that children who attend a full day of preschool at child-parent centers have better academic outcomes than children who attend a half day" (Sanchez, 2015).*

4.9 Exaggerated innovation

The innovation agenda often leads to exaggerated self-serving claims and the adoption of proposals that are not necessarily very innovative. Many social impact bond projects implement proven policies and methodologies, for example, the Peterborough Prison recidivism bond and the Newpin bond in Australia. Most private investors are likely to seek projects that apply approaches that have been proven to work and use evaluation techniques that are most likely to demonstrate positive impact.

> *…the biggest SIB innovation is the transaction itself, and its accompanying financial instruments and intermediaries, not the service method (Pratt, 2013).*

The non-profit sector has often been 'innovative' by widening their scope of activities and becoming more business-like as governments pursued neoliberal policies. For example, many housing associations colluded with government to implement large-scale privatisation of local authority housing stock (Smyth, 2013). One of the largest UK housing associations, Genesis, with 33,000 homes in London and the south east, has stopped building social housing and will only build homes for sale, rent at market rates, or shared ownership (Murtha, 2015).

It is important that the type and scale of innovation claimed for each project is rigorously assessed for its operational sustainability, financial viability and the degree to which the working methods and skill base will achieve the outcomes and objectives.

The New South Wales (NSW) social impact bond scope for innovation included the need to:

- *Widen the array of mechanisms by which governments can commission their services*
- *Incentivise public servants and NGOs to properly define outcomes, including against future performance counterfactuals*
- *Improve the measurement of public and social impact (including 'savings')*
- *Facilitate cross-sectoral collaboration in the design and delivery of the programs and services*
- *Allow the NGO sector (with private sector support) to initiate their own approaches to the creation of public value, unencumbered by government micromanagement of their business*
- *Fund human services prevention measures rather than simply directing expenditure to crisis interventions" (KPMG, 2014).*

However, the perspective on innovation is revealing: *"…the programs that have been selected are not seen to be particularly innovative as they are not 'new' programs. The Newpin program is a pre-existing program; and the Resilient Families Service is based on other international programs and has been tailored to NSW"* (ibid).

4.10 Equalities and social justice

The latest annual global impact investment survey covers all types of impact investment and reported *"About one-third of respondents explicitly target gender equality as an impact theme, while just over half target environmental conservation as an impact theme"* (JP Morgan and Global Impact Investing Network, 2015).

A lack of social justice and equalities policies is evident in social impact bond policy analysis and commentary, for example OECD, 2014a and 2015, KPMG, 2014, Alternative Commission on Social Investment, 2015, Policy Innovation Research Unit et al, 2015, Mulgan et al, 2011, Warner, 2013 and many others. Despite the widespread use of 'social' as a linguistic prefix to finance, innovation, impact and enterprise, there is minimal evidence of regard to equalities policies.

Economic, social and health impact assessments should be undertaken once a social impact bond/pay-for-success project has been agreed, **before** contracts are signed. It should assess the wider effect of the project on the local economy, community and other public services. The failure to incorporate equality policies and address the relevant issues could lead to significant additional risks for social impact bond projects.

The lack of transparency is a contributory factor, as is the continuation of austerity policies and the lack of involvement of service users and employees in social impact bond projects. The Coalition government weakened UK equality legislation, and further changes are likely by the current Conservative government. Equalities impact assessments in the public procurement process are little more than a tick box exercise.

A social justice framework provides a more comprehensive approach to equalities, because it includes the distribution of opportunities; redistribution and improving life chances; eliminating discrimination; improving quality of life and community well being; participation, involvement and governance; and reducing inequalities (Whitfield, 2015).

The criteria and selection of a target population for social impact bond and pay-for-success projects is of paramount importance. The selection of 'what works' in the interests of investors and creating 'successful' projects, are likely to influence the selection of a target population. The question is how are equality rights, responsibilities and policies taken into account in selecting target groups?

In some cases governments have delegated the selection of contractors to the intermediary organisation, for example the Peterborough Prison project. This raises fundamental issues regarding public procurement, particularly the capability of the delegated organisation to procure or award a contract when the intermediary organisation may not have adequate equalities policies and practices and/or the ability to fully evaluate contractors equality policies and practices.

Potential legal challenges could emerge from services users who consider they are in greater need than those selected in a target population. This could lead to divisions between service users and within communities regarding who is included or excluded, on what grounds, and could ultimately set back social cohesion strategies.

> *Many social problems, however, do not lend themselves to quantitative analysis or do not present a potential for cost savings. Issues that are difficult to measure are likely to be ignored by SIB programming. For example, racial inequality is not easily measured and could not be effectively translated into the metrics necessary for SIB evaluation (Princeton University, 2014).*

Potential challenges could arise over the effectiveness of early intervention strategies for some service users, disputes over the quality of employment and sustainability of earnings relative to benefits, and legal challenges to the withdrawal/reduction of benefits.

The adoption of gaming tactics such as 'cherry picking', 'creaming' and 'parking' by a contractor could lead to legal action for discrimination and differential treatment in additional to disputes between the public body, intermediary, investors, contractors and the evaluator.

Proposals to reconfigure or decommission services raises critical issues, such as the scope of equality impact assessments, and the extent to which this evidence is taken into account in the decision making process.

The disclosure of project documentation, value for money assessments, economic and social impact assessments and performance information is vital to provide information about the extent to which equalities and social justice policies are incorporated in the design, planning and operation of social impact bond projects.

It is also essential to make service user and staff participation meaningful. Access to information is crucial in determining the implementation of equalities policies and practices. Private and non-profit companies are excluded from the UK freedom of information regulations.

Social impact bond projects should seek to reduce income inequality of service users and staff. They should ensure that private and non-profit contractors and consultants are prepared to commit to equality policies over and above the legal minimum, which is particularly important given the target populations and the early intervention and prevention agenda. Government, public sector and intermediary organisations should ensure that employers in social impact bond projects implement equality policies and practices in staffing, such as pay and conditions, pensions, workforce development, trade union recognition and industrial relations.

> *Despite the work with 'troubled families' being a 'core element' of the first child poverty strategy, the alleviation of poverty is not part of the Payments-by-Results framework and the word 'poverty' barely features in the government documents relating to the TFP [Troubled Families Programme] (Crossley, 2015d).*

4.11 PUBLIC COST OF SOCIAL IMPACT BOND PROJECTS

Nearly £520m of UK public money has been given to social enterprises and social impact bond projects in recent years in the form of grants and financial support (Table 5). Finance for social impact bond projects is divided between the Innovation, Youth Engagement and Fair Chance Funds to directly fund projects and programmes that finance technical support and subsidies. For example, the Social Outcomes Fund (Cabinet Office) and the complementary Commissioning Better Outcomes (Big Lottery Fund) were launched in 2013 with £20m and £40m respectively.

The Social Outcomes Fund provides public funding *"…where commissioners may believe that the narrow economic case for the government department, agency or local authority in question is insufficient to justify offering adequate reward payments"* (Keohane et al, 2013). Commissioning Better Outcomes fund provides finance for technical support for the development of social impact bonds.

The Investment & Contract Readiness Fund £10m "…*will provide grants to social sector organisations to purchase the capacity building support needed to help raise investment"* (ibid). This is akin to PFI/PPP contractors wanting the state to pay their bid costs! *"In the absence of sufficient subsidised external capital, the state must be willing to subsidise the costs if it wants SIBs to expand to achieve the benefits identified earlier"* (ibid).

TABLE 5: THE COST OF SUBSIDIES AND SUPPORT TO UK SOCIAL INVESTMENT

Public funds and support programmes	Cost (£m)
Social Outcomes Fund (Cabinet Office) 2013	20.0
Commissioning Better Outcomes (Big Lottery Fund) 2013 to grow market in social impact bonds and access new forms of financing***	40.0
Department for Work and Pensions Innovation Fund to establish 10 social impact bond contracts to address youth unemployment (Cabinet Office)****	28.4
Investment and Contract Readiness Fund to build their capacity to be able to receive investment and bid for public service contracts.*	10.0
Impact Readiness Fund to help social venture attract investment and win contracts*	1.5
Social Investment Tax Relief (HM Revenues & Customs) £10m, £15m, £25m and £25m respectively between 2016/17 and 2019/20*****	75.0
Social Enterprise Investment Fund for social enterprises in health and social care 2009-2012*	119.0
Mutual Support Programme (Cabinet Office) training, technical and legal support for 'spin-outs' from public sector 2011-2015***	10.0
Social Incubation Fund for social enterprises 2012-2013 for organisations that provide finance and support to social venture start-ups	10.0
Centre for Social Impact Bonds (Cabinet Office) – a small team of civil servants and sector experts established in 2012 – 3 years at estimated cost of £250,000 per annum**	0.75
Mutuals Support Programme team (Cabinet Office) 2012-2013 to 2014-2015	0.75
Social Finance support to develop SIBs from Big Lottery Fund	5.0
P2P Impact Fund (Cabinet Office) substitute for social venture directors' personal guarantees*	2.0
Big Potential (BIG Lottery Fund) for voluntary, community and social enterprise sector to prepare for social investment*	20.0
Youth Engagement Fund – education and employability young people: Fair Chance Fund – homeless young people (Cabinet Office)******	30.0
Futurebuilders Fund (Cabinet Office) set up in in 2004 to help third sector organisations win public service contracts*	145.0
Arts Impact Fund (Cabinet Office, Arts Council England, Bank of America Merrill Lynch, Esmee Fairbairn and Gulbenkian Foundations) £7m fund for social, artistic and financial return from arts based organisations, 2015	n/a
Total	**517.4**

*Sources: * A Tale of Two Funds: Futurebuilders, Boston Consulting Group, 2015; ** Centre for Social Impact Bonds, 2015; *** Cabinet Office, 2015; **** Cabinet Office, 2013c; ***** HM Treasury, 2015: ****** Cabinet Office, 2014.*

The US Department of Labor provided US$20m grants for pilot Pay-for-Success projects to test the viability of projects to achieve positive workforce outcomes, commencing in 2012. The grants were intended to test a model for government investment in service delivery models that transfer risk to the private sector whether preventative social services *"…pays off"* (United States Department of Labor, 2012).

The New York State Pay-for-Success Project: Employment to Break the Cycle of Recidivism received a grant under this programme to fund the first two years of service delivery (Bank, 2015). In 2014, the Workforce Innovation and Opportunity Act came into effect to revamp how US$2.6bn funding to state and local labour boards for employment projects. Projects can either be 'payment for performance' contracts or 'pay-for-success' social impact bond projects (Social Finance US, 2015).

A bipartisan Bill in Congress would, if approved, allocate US$300m to fund social impact bond projects. The US Treasury would be allowed to spend up to US$1m annually to provide technical assistance, feasibility and evaluation studies (Young, 2014).

TAX RELIEF

The UK government introduced Social Investment Tax Relief in 2014 (including social impact bond investments) for individuals comprising income tax relief at 30% of the amount invested and capital gains disposal relief if it is sold at a profit. It will cost £10.0m in 2016/17 rising to £15.0m per annum in 2017-18 and £25.0m in the following two years (HM Treasury, 2015).

HIGH TRANSACTION AND IMPLEMENTATION COSTS

Some of the activities that incur significant transactions costs when selecting a target population (cohort) include compiling an evidence base or accessing data, deciding on the eligibility criteria, the selection methodology, identifying a control or comparator group, agreements with investors, procurement of contractors, design of monitoring and evaluation methodology, measurement of outcomes, identification of savings, contract negotiations and due diligence. The time and cost of participation of potential service users and staff should be another factor.

The joint development phase of social impact bonds in Australia was very labour intensive – *"…the number of hours equates to six FTEs working solely on the development of one social benefit bond over an intensive 12 month period (based on a 5 day workweek of 37.5 hours)"* (KPMG, 2014). Government and service provider advisers accounted for 29.1% of the labour days per bond, the second highest labour element (Table 6). No costs were available, but the cost of 463 consultant/lawyer days would have been considerable. Provision of some consultant/legal advice on a pro-bono or heavily discounted basis, would reduce the cost of pilot or trial bond projects, but is not sustainable long-term.

TABLE 6: AVERAGE LABOUR RESOURCE COMMITTED TO THE PLANNING AND DEVELOPMENT OF TWO AUSTRALIAN BONDS

	Central Agencies	Line Agencies	Service Providers	Govt. Advisers	Service Provider Advisers	Total
Average number of labour hours per bond	1,692	3,630	2,984	2,262	1,144	11,712
Average number of days per bond	225.6	484.0	397.9	301.6	152.5	1,561.6
Percentage of labour days per bond	14.4%	31.0%	25.5%	19.3%	9.8%	100.0%

Source: KPMG, 2014

In another example, the project development process took 23, 19 and 2 months for the Essex County Council (reducing children in care project), Greater London Authority (reducing homelessness) and the Consortium for Voluntary Adoption Agencies projects respectively (Griffiths and Meinicke, 2014).

> *SIBs are an expensive method of expanding social sector interventions. They are programme specific, thus requiring in-depth analysis of the impact of interventions in a specific environment. Independent evaluation of performance under the SIB is expensive. Such costs absorb a significant proportion of the returns available to investors or value to commissioners. Related to this is the problem that their small scale and bespoke nature means that the transaction costs of setting up a SIB can be prohibitively large (Keohane et al, 2013).*

The Peterborough Prison social impact bond project is reported to have taken the equivalent of 2.5 years of staff time and 300 hours of legal and tax advice over 18 months (Jeram and Wilkinson, 2015).

Proposals to try to reduce transaction costs in Australia include selecting similar policy areas for future bonds to produce efficiencies; choosing policy areas with an established evidence base; use of adaptable legal contracting templates; using the bond structure established for the first two bonds; and government contract directly with service contractor *"…which then establishes a separate arrangement with a special purpose entity (a trust) which is managed by a financial intermediary"* (KPMG, 2014).

Reinvestment of profits

In Canada, the Saskatchewan social impact bond project was financed by two C$500,000 payments from the Conexus Credit Union in Sasakatoon and a private investor. The credit union stated that profits would be reinvested in the community, a common practice of non-profit organisations elsewhere. However, private investors are already funding social impact bonds even in the early stages of their development. Taking this as an example, if the social impact bonds grow at the pace forecast by their advocates, the proportion of profit-seeking investments by private and financial institutions will increase, hence reducing the scope for community reinvestment.

What happens when a social impact bond project is concluded?

There are virtually no references to what happens after a social impact bond project is concluded or withdraws prematurely.

- Will services return to public provision, will another project be proposed or will services be outsourced to the private or voluntary sector?
- Social impact bond contracts are relatively short-term compared to the length of time people are expected to stay out of care, prison or stay in employment or training and to deal with future personal or family crises, so who will continue to give them support?
- Will another project be established for the same group of service users or for a different group? This raises obvious questions about the continuity of provision.
- What happens when the next financial crisis or economic recession results in further austerity measures, or rising unemployment – will project intermediaries and contractors be left to deal with rising costs or will they seek a bailout from government or private investors?

4.12 Social impact bond projects and free trade agreements

There has been no public acknowledgement of disputes between social impact bond project investors, contractors, project companies and public sector bodies, largely because of the relatively small number of currently operational projects. However, this is likely to change if the number and scope of projects increases significantly. Although performance is assessed by an ‘independent’ evaluator, there is little evidence that their role will mitigate the risk of disputes and potential legal action, particularly if the evaluator’s performance is disputed. The definition of ‘independent’ can often be misleading.

International cooperation, and potentially international bidding for contracts, could lead to the future use of Investor-State Dispute Settlement (ISDS) clauses in the Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP) currently being negotiated, which could allow firms to ‘sue’ governments to obtain taxpayer compensation for loss of ‘expected future profits’ if social impact bond projects are terminated or the policy is significantly reduced in scope. Companies and investors would be empowered to challenge regulations, rules, government action and court rulings at tribunals. Further liberalisation of services and deregulation under the planned Trade in Services Agreement (TISA) is almost certain to increase opportunities for private finance of public services and privatisation.

4.13 Financial flaws

Summary of financial flaws in social impact bond projects:

Accumulation and profit: Creating a new source of investment and profit for social and private investors has attracted banks and financial institutions. Impact investment, and social impact bonds in particular, financialise social need to create new opportunities for accumulation. This could lead to the acceptance of profiteering across social policy provision and selecting social need that is profitable, ignoring needs that are not. The financial return on investment inevitably means services are run on a commercial basis – annual returns of 15% - 30% or more, are significantly higher than most private contractors obtain from outsourcing! The attempt to embed the ‘innovation = profit’ link in public services, should be rejected as an economic, social and political objective.

Profitable private investment: A market rate of return on investment has a major influence in the selection of social policies and projects that will become social impact bond projects, such as early childhood development, health, education, health, recidivism and homelessness. The question of what happens to the services and functions that cannot provide a market rate of return appears to be ignored by the impact investment lobby and many governments.

The focus on a new financial mechanism and service-based approach: Early childhood intervention, tackling recidivism and other similar challenges only partially address the *causes* of poverty, inequalities and crises in people's lives. Social impact bond projects are a diversion from the more fundamental changes needed to tackle poverty and inequality.

Public budgets: A UK independent report on early intervention concluded that a social impact bond *"…has more characteristics of a traditional equity vehicle. Under this model the intermediary was classified to the private sector, and the outcome-based payments did not need to be accounted for because there is no certainty that the outcomes will be achieved"* (Allen, 2011).

It further concludes *"…outcome-based contracts would not require the Government to reflect the intermediaries' activity in the national accounts or for local or central government to reflect the contingent revenue claim in future years' accounts (although this would currently be assessed on a case-by-case basis). However, if a greater number of SIBs are going to emerge, more thought needs to be given as to how this could work on a broader cross-Whitehall level "* (Allen, 2011).

If the number of social impact bonds continues to increase, then public bodies will have to ratchet up the lump sum contractual payments due from revenue budgets on completion of projects. This raises questions about how these debts are accounted for when the final payment is unknown, because the future level of performance will determine the final payment.

> *The Government cannot afford to continue to fund both legacy services and payments for outcomes; however, it has a number of long-term commitments to the in-house provision of services that typically have high fixed costs.*
>
> *Central government must look to decommission services, which are reduced due to Early Intervention to be able to pay for outcomes. It needs to get to a position where it is 'fleet of foot'; where commissioners can adjust budgets more rapidly to the emerging problems of today and not the legacy services that address the problems of yesterday (Allen, 2011).*

Yet the same report had earlier stated:

> *Early Intervention should reduce the requirement for children to be taken into care, but a local authority may still find itself taking more children into care after an Early Intervention programme is completed, simply because more children from dysfunctional families have become part of its population. It may take a number of interventions, over a number of years, to reach a point where unmet need is reduced sufficiently to close a care home down, for instance. This indicates that, in the short term, it may not be possible to rely entirely on cashable savings being delivered before an outcome is paid for. Nevertheless, there is strong and mounting evidence to suggest that Early Intervention can deliver significant cashable savings for local areas in the longer term (ibid).*

This is a confused and contradictory analysis. It highlights the problem for governments in implementing early intervention and preventive policies *whilst* continuing to fund core services and infrastructure. The concept of early intervention and development will surely exist for the foreseeable future and will, therefore, never be "completed". Decommissioning services on a significant scale due to social impact bond projects will not immediately, although the legacy costs cannot be ignored. The need for core services will continue in addition to acute services for those who are not covered or fall through the early intervention/prevention strategies outcome net.

Off-balance sheet financing: If public sector repayments to private and social investors in social impact bond projects are treated 'off balance sheet' this could lead to further budgetary and financial problems and the categorisation of debt. This is different from PPPs because payment of the monthly unitary charge (consisting of construction, finance and facility management services costs) commences as soon as the building or facility is operational.

Revenue budget pressures squeeze other services: The buy now-pay later approach to public finance has caused severe problems in the UK's National Health Service with many Hospital Trusts in financial crisis, because PFI/PPP contractual payments account for a significant slice of their revenue budgets, leading to cuts in other services.

High transaction costs: Procurement, bidding, consultants and lawyers divert much need resources from frontline services. But this is only one part of the cost of outsourcing, markets and privatisation. The additional cost of private finance, regulating markets, direct and indirect subsidies, wasted bids and contract terminations, increased administration costs, management consultants, public sector reorganisation, is estimated to be £7.5bn per annum in the NHS alone (Whitfield, 2015).

Savings forecasts: Quantifying and forecasting potential public sector savings is very difficult. There is a long history of savings from outsourcing and PPP strategic partnership contracts either failing to materialise or being significantly smaller then originally envisaged (Whitfield, 2014c). Private contractors, trade bodies and some public bodies regularly exaggerate the size of expected savings. Although savings targets are a common objective of outsourcing contracts and feature in Key Performance Indicators and contracts, taking legal action to seek readdress for failure to achieve financial savings has not been possible in the UK. For example, the Maryland recidivism project forecast a 10% reduction in reoffending and a 6% reduction in the cost of running the pilot programme based on optimistic assumptions (McKay, 2013).

Secondary trading when investors want out: A UK Social Stock Exchange was recently established to facilitate secondary market trading in social enterprise investments. Whether trading in social impact bond investments reaches the same scale of PFI/PPP equity in the UK, is too early to judge. However, some degree of trading is likely to emerge if investors seek to sell their investment before the end of a contract (see Appendix).

New financial instruments: Financial institutions may develop new financial instruments for impact investing which, given previous experience, could seek to evade the new financial regulatory regimes.

Potential financial disputes: Disputes could arise if the distribution of savings between public bodies are lower than forecast or are shared unequally or if the public disputes the evaluator's performance assessment and the level of profit required by investors.

New funding? Social Finance UK claimed the Peterborough social impact bond attracted new sources of funding for public services and specifically for criminal justice (Disley et al, 2011). The authors correctly concluded this could not be determined without an analysis of the investors funding decisions (in this case charities and foundations) both before and after social impact bond investments. Funding of one sector could be at the expense of another. Increased private investment in public services does not automatically mean increased funding for public services. In the current context it almost certainly does not replace current public expenditure, let alone increase it.

4.14 Public policy flaws

Summary of public policy flaws in social impact bond projects:

New markets: Social impact bond projects create new markets for investors, financial intermediaries, service providers, consultants, lawyers and evaluators. The marketisation and commercialisation of social problems is already evident in health, education, housing, social services, employment training, welfare services and the criminal justice system. The continued neoliberal-driven search for new buy now – pay later, off balance sheet or new actuarial-dominated financial schemes, automatically increase the scope for private contractors and consultants. This is not effective, productive or sustainable.

Flawed comparison and evaluation: Social impact bond proposals are normally only compared with status quo, or business as usual, public provision. The lack of an innovative and improved public sector option, and rigorous options appraisal, fails dismally to meet basic evaluation principles of comparing like with like. Offenders in the Peterborough Prison social impact bond project are compared to *"…matched control groups. Each control group will be drawn from all prisoners released from sentences of less than 12 months, within the same time period from other prisons nationally. One-to-many propensity score-matching will be used to select the control group: this means that each cohort prisoner will be matched to up to 10 control group prisoners"* (Disley et al, 2011).

Competition: Direct public provision is usually excluded as a service delivery option, which leave social enterprises, charities, voluntary organisations, consultants and private contractors to compete for contracts. Whilst publicly owned arms-length commercial companies may continue for a while, they will ultimately fall prey to private sector takeovers. Markets and competition leads to consolidation to achieve market share through the merger or takeover of private contractors and non-profit enterprises, within and between sectors.

Commissioning, commercialisation and contract culture: High transaction costs, 3-7 year contracts, and the exclusion of in-house provision, will lead to further rationalisation and retrenchment as services are privatized, the loss of experience in frontline service delivery and direct contact with service users. Non-profit enterprises and voluntary organisations are under increasing pressure to commercialise their activities.

Reduced role of the state: Continued outsourcing and privatisation of other welfare state services and functions water down the benefits of early intervention policies. This is almost certain to weaken the role of the state in addressing the root causes of poverty and disadvantage.

Decline of in-house provision: The expansion of impact investing and widening use of social impact bonds will challenge the continued provision of in-house public services. The idea that they are a temporary measure to jump start systemic change with service provision continuing in-house, would require a very significant change in the political economy. Current conditions make the reverse more likely, leading to full-scale privatisation.

Flexible labour policies: This is code for private contractors, non-profit enterprises and voluntary organisations to evade public sector terms and conditions, industrial relations framework and workforce development policies. Public sector bodies relinquish responsibility for staffing levels, terms and conditions, workforce development and the employment practices of contractors. A significant element of savings is dependent on low cost labour. The Peterborough Prison social impact bond project engaged 56 volunteers alongside 7 full-time and 3 part-time staff (see Part 7).

Economic, social, equalities and environmental impacts: There is little evidence that social impact bond and pay-for-success projects have, or are willing, to adopt best practice in assessing the full impact of policies and projects. This is a particular concern in countries, such as the UK, where government has already weakened equalities regulations and further reduction of workers rights is planned, in the form of new trade union legislation.

Significant risks are borne by government, staff, service users and contractors – not just the private investors as claimed by the advocates of social impact bonds.

Service users may gain more individualised and personalised services, but fewer opportunities for collective organising, because this is not part of the specified outcomes. Selective targeted support for individual children and parents is a core part of early intervention strategies. However, individualisation and personalisation are a quadrant in the neoliberal public sector reform model, which is almost certain to emphasize individual choice mechanisms and consumerism, rather than community and workplace democratisation (Whitfield, 2012a).

> *…the conception of citizenship embodied in participatory democratic theory is that citizens are not at all like consumers. Citizens have the right to public provision, the right to participate in decision-making about their collective life and to live within authority structures that make such participation possible (Pateman, 2012).*

Weakened democratic accountability and participation: Public control is ceded to a 'partnership' of social finance intermediaries, non-profit organisations, private contractors and consultants. Monitoring, scrutiny and disclosure will be even more problematic, because of the current limitations of freedom of information regulations. The private sector will have wider involvement in the public policy making process.

Reduced public service principles and values: The combination of accumulation, markets, competition, commercialisation and contract culture, arms length democratic accountability will inevitably erode public service principles and values (Whitfield, 2014b). The various forms of ‘social responsibility’, the social objectives of organisations engaged in social impact bond projects, and tweaking procurement process towards ‘social value’, will be unable to counter the dominant effects of commercial values and business practices.

Fracturing of public provision: Selective use of the social impact bond model in services that maximise the opportunity for investor profits, leads to the fracturing of service provision.

Fragmented public planning: The planning of public infrastructure and service provision is constrained by economic performance and market forces. Social impact bonds projects increase the role of financial interests and market forces in service provision making longer term planning even more precarious.

Privatisation of the welfare state: Continuing austerity and a planned £12bn cut in UK welfare state spending, coupled with the mutation pathways, will lead to further destabilisation and fracturing of services and welfare benefits, and probably lead to new financial mechanisms to commodify and commercialise public services. Social impact bond projects are privatisation.

The negative consequences of social impact bonds are summarised in Table 1.

5 EXPORTING IMPACT BONDS TO THE GLOBAL SOUTH

5.1 DEVELOPMENT IMPACT BOND PROJECTS

Development impact bond projects are financed by foreign aid programmes, such as the UK's Department for International Development (DIFD) and US Aid and/or by foundations, when governments do not have the resources. In contrast, social impact bonds are financed by private investors and repaid by governments or public bodies.

The claims made about for development impact bond projects are virtually the same as those for social impact bond projects, hence the analysis in other parts of this report are equally applicable.

The Center for Global Development and Social Finance (2013) recently observed that the US$2 trillion public funding of development aid in the last 50 years could have been more successful. They claimed poor targeting of resources, inadequate incentives to focus on outcomes, limited innovation, short-term funding and insufficient evidence to support decision-making.

According to a development impact bond working group:

> *…having private investors provide funding for (and assume risk for) social programmes and by introducing financial returns that are tied to the achievement of social outcomes – the distinguishing feature of the model – DIBs present a paradigm shift in how we fund social programmes. They are not merely a new financing mechanism but a new approach or business model for how development programmes are designed and operated (Center for Global Development and Social Finance, 2013).*

They claim development impact bonds *"…transform neglected social problems into investible opportunities….introduce market rigour to achieving social outcomes…create incentives to make funds available for longer periods of time"* (ibid).

There is little evidence that the development impact bond approach will be more effective.

The first Development Impact Bond was launched in Rajasthan, India, in April 2015 with the objective of enrolling 5,000 out-of-school girls into public primary schools over a three-year period (see Table 4). In Peru, a cocoa and coffee project is operational and other projects are at the design stage in Pakistan, Mozambique, Swaziland, South Africa, Israel, Chile and Columbia.

A US$5.3m facility to support social impact bonds in Latin America was launched by the Multilateral Investment Fund of the Inter-American Development Bank in 2014. Part of the funding will be used to fund three pilot social impact bonds and the remainder to promote bond projects with governments and public bodies (Perakis, 2014).

A private education company, GEMS Education, with 71 schools worldwide, examined the scope for social impact bonds in early childhood, primary, secondary and vocational education in Latin America, although it currently has no schools in the region. It recognised that social impact bonds are largely unproven. However, it identified the scope for social impact bonds in primary education:

> *…may be best suited in areas where there are clear gaps in services or where complementary programmes can enhance educational outcomes, without having to displace the existing programmes. In addition, SIBs and performance contracting may also be relevant in instances where primary education services are already publicly-financed but privately-delivered, such as through voucher programmes (Bloomgarden et al, 2014).*
>
> *Private investment could be useful to help finance and implement school improvement programmes, as well as combine traditional PPPs structures, alongside outcomes- based contracting structures for services provided (ibid).*

After-school programmes in secondary education were considered more suitable for social impact bonds than school-based reforms *"…because investors will have greater jurisdiction over independent* *operators, than they might have over publicly-operated school systems in a school-based reform setting"* (ibid). The scope for social impact bonds in vocational training and employment was tempered by the difficulty in obtaining sufficient cashable savings to finance projects.

The International Development Working Group, part of the G8 initiated Social Impact Investment Taskforce, recommended establishment of a new Impact Finance Facility to develop new and innovative companies, business models and innovative social sector organisations to build a pipeline of impact investments; create a Development Impact Bond Outcomes Fund to create development impact bond pilots; and improve metrics and transparency and support growth of the impact investing market (Social Impact Investment Taskforce, 2014c).

5.2 Promoting payment-by-results

The World Bank's Programme-for-Results (PforR) was launched in 2012 to *"(a) finance and support borrowers' programs of expenditures and activities, (b) disburse against achievement of program results rather than against inputs, (c) focus on strengthening institutional capacity to implement the program, and (d) provide assurance that the Bank's financing is used appropriately and that the environmental and social impacts of the program are adequately addressed. PforR was also intended to promote partnership working"* (World Bank, 2015).

By the end of 2014 the World Bank had funded 22 PforR projects providing US$3.5bn bank financing to support a total of US$8.5bn government programmes (ibid). The PforR programme was not officially launched and a 5% cap was placed on PforR commitments.

The review concluded: *"Overall implementation of PforR operations is also on track, with performance ratings of satisfactory or moderately satisfactory for all but one operation and risk ratings stable through early implementation"* (ibid). A survey of Bank staff and government officials, who had used the PforR mechanism *"…indicated satisfaction with most of the specific features of the instrument"* (ibid). The review found increased costs due to extensive discussions during the preparation and negotiations in the use of PforR. The review recommended a continued managed roll out of payment by results.

The UK's Department for International Development (DFID) launched a strategy to increase the use of payment-by-results contracts – 71% of contracts for services issued centrally in the year ending September 2013, had a performance by results element (DFID, 2014). The strategy is intended to strengthen their 'best commercial practice' to PbR.

The Department has also been funding the pre-implementation stage of a development impact bond in Uganda to tackle sleeping sickness, which is caused by a parasitic infection that attacks the central nervous system and can be fatal (ibid).

The Center for Global Development use the term 'Cash on Delivery Aid' instead of payment by results, a more brutal, but honest description (Center for Global Development, 2015).

New Sustainable Development Goals

New sustainable development goals are planned in autumn 2015.

If the private sector succeeded in fulfilling the annual Sustainable Development Goal US$2.5 trillion investment gap with impact investing and development bond projects (United Nations Conference on Trade and Development, 2014), it would generate a US$375 billion annual transfer of profits primarily to banks, private equity and hedge funds and wealthy individuals in industrialised countries, based on an average 15% annual return on investment.

6 DEMOCRATIC ACCOUNTABILITY, PARTICIPATION AND TRANSPARENCY

6.1 ERODED ACCOUNTABILITY

Democratic accountability and transparency is absent from case studies and documents promoting social impact bond projects. This is largely due to the concept of the intermediary organisation being external to government and in an influential position, responsible for the recruiting investors and selecting providers and consultants. Public sector commissioners, in effect, collude with the privatisation of the intermediary function, despite them being responsible for how they respond to, or initiate, social impact bond projects. The relationship between a public body and a private contractor requires new channels of accountability within the public body (commissioner and elected members oversight and scrutiny) and between the public body, private contractor and service users/public.

Outsourcing public services to private contractors and consultants changes the distribution of power between government, the public and the private sector. Social impact bond projects also disperse power because the public sector commissioner, or client, has less direct control over the social finance intermediary and often has no direct control over the service providers (Baliga, 2013).

> *Outsourcing public services to private entities for private profit profoundly affects the distribution of power among the state, the public, and the private sector (ibid).*

National impact investing organisations are emerging, which, in effect, act as trade organisations to promote social impact bonds and to lobby for legislative change. Alliances of non-profit, voluntary and public sector managers committed to social impact bonds, impact investing and social impact measurement, are also emerging in several countries.

6.2 ABSENT PARTICIPATION

There is little evidence that service users, community organisations and public sector trade unions have been involved in the planning and procurement process for social impact bonds to date. Their involvement is absent from the social impact bond and payment-by-results literature.

> *…the voices of low-income and other marginalised people are almost completely absent from the literature on venture philanthropy and social enterprise, where things seem to be done to, for, or around but never with or by them (Edwards, 2010).*

For example, a report on the feasibility and design stage for the Payment-by-Results for Troubled Families Programme, commissioned by the Cabinet Office, examined delivery options involving local authorities, a social impact bond agency, a large prime contractor, a consortium and a social investment partnership. The study concluded with a one-day briefing, similar to pre-procurement events *"…but with the added dimension introduced by PBR/SIBs that there was direct engagement with those who might invest in the programmes as well those who deliver them"* (Cabinet Office, 2012).

Provider and investor concerns were summarised:

- Confirmation that providers and investors would be concerned if there were procurement of too many outcomes, and, therefore, a process of undue complexity with *'too many moving parts'*. This would affect their ability both to manage risk and to measure success;
- The need for a multiple tariff if there were multiple outcomes, so that the price per outcome could relate to both the cost of intervention and the potential for savings;
- The need for clarity on how the proceeds of savings would be shared between commissioners and investors;
- Concern that cohorts would not be large enough to help providers and investors balance risk of over and under-performance; and
- Confirmation of the view that investment and delivery models other than social impact bond projects need to be considered (ibid).

The concern for investors was a dominant feature – *"…investors generally need to see much more detailed information on e.g. payments, volumes, likely success rates, etc before they can make sensible investment decisions"* (ibid). Furthermore, *"…commissioners will need to consider how they adapt their "normal" commissioning and procurement processes so that they can successfully accommodate investors and intermediaries, as well as providers, and enable providers and investors better to assess risk and return"* (ibid). This could include holding more detailed discussions with investors once commissioners' procurement plans were clarified.

Government guidance on the template contract for social impact bond and payment-by-results projects a year later did recognise:

> *There may be significant value in the commissioner engaging with current or past users of the service and/or service providers, to understand better what is likely to be effective, before designing its project. Alternatively, an authority may elect to build that sort of input into the procurement process itself, engaging in a form of competitive dialogue with its bidders (Cabinet Office, 2013b).*

The second part of this quote provides an escape clause, because service users are normally excluded from the procurement process. However, the advantages of involving service users was recognised in the second Peterborough Prison social impact bond:

> *Future SIB and payment by results schemes which target a specific group of service users may benefit from greater input of operational staff at the contract drafting stage to ensure greater clarity around establishing clear procedures for cohort identification, data collection and analysis, including which data systems will be used (Disley and Rubin, 2014).*

It remains to be seen whether this advice will be heeded.

A prisoner focus group meeting was held in Peterborough Prison on 5 August 2009 that discussed the main challenges that people faced on leaving prison, the support they would like to receive, and who should provide the services (Social Finance, 2011). This occurred before the contract was signed. The Peterborough project reviews refer only to 'stakeholder groups', which consisted of the intermediary and the contractors The One Service, Social Finance, Mind, Ormiston Children and Families Trust, Sova and St Giles Trust (Disley et al, 2011, Disley and Rubin, 2014).

Innovation and improvement of public services will be severely limited if service users, community organisations, staff and trade unions and civil society organisations are not involved in the planning, design and delivery of early intervention and prevention strategies. Two Canadian public sector unions, National Union of Public and General Employees (NUPGE) and the Canadian Union of Public Employees (CUPE), have campaigned vociferously against social impact bonds, as has the American Federation of State, County and Municipal Employees (AFSCME). However, a search of other main public sector trade union web sites in the UK, US and Australia revealed few references to, let alone content on social impact bond projects.

CITIZEN PARTICIPATION IN DEVELOPMENT IMPACT BONDS

Stakeholder consultation is exclusive to the impact investment market and does not include public consultation. For example, the stakeholder consultation to the Impact Investing Australia study ranged from investors, philanthropist, fund manager, capacity builder, community and mainstream financial intermediaries, not for profit, social enterprise to policy maker and product developer! (Impact Investing Australia, 2014).

Participation in social impact bond projects is always likely to be secondary to the interests of private investors securing a return on their investment and governments achieving public sector savings. And since the intermediary, contractors, consultants, lawyers and evaluators are not publicly accountable organisations, genuine participative social impact bond projects appear intangible.

Citizen participation in the planning, design and delivery of social impact bonds and payment-by-results projects is absent from a range of studies by international organisations (G8 Social Investment Rask

Force, 2014; OECD, 2014a and 2015; World Bank, 2015; Independent Evaluation Group World Bank, 2014). Any references to 'participation' or 'engagement' in these documents referred to the participation of providers or market engagement. It is however, implicit that impact investing organisations and social enterprises will be empowered!

Five impact investing principles were drawn up to assist governments "…*looking at policy tools to bring private capital to support the achievement of social objectives"* (Impact Investing Policy Collaborative, 2013). Stakeholder engagement is included, but is non-specific about whom 'relevant' or 'key' stakeholders' are and is thus vague. The principle of 'universal transparency' refers to 'the public at large' and 'empowers citizen participation'.

A Code of Good Impact Practice has been drawn up in the UK (Inspiring Impact, 2013) together with examples of how the eight high-level principles have been put into practice (Inspiring Impact, 2014). Principle three encourages the involvement of beneficiaries, staff, volunteers and project partners in defining impacts and collecting and reviewing information. However, there is no systemic approach to service user, community organisations, staff and trade union involvement in the planning, design and delivery of early intervention and prevention strategies. Instead the emphasis appears to promote involvement that will enhance the contractor's reputation rather than strengthen community organisations.

The World Bank's two-year review of Program-for-Results included only four examples of citizen engagement. Ethiopia set an example "*Citizens' participation in the planning process under the Local Government Program is a performance measure that helps determine the financial allocation from the Program"* (World Bank, 2015). Other examples included Mexico, Uganda and India, but it is clear that citizen engagement is not a central part of the PforR programme. There are no proposals for citizen participation in the Department for International Development's strategy for payment-by-results (DFID, 2014).

A different perspective is provided with the following statement:

> *People want **not to need** international assistance. They want to live politically, socially, environmentally, and economically secure lives without depending on outside help. What they want, therefore, from international assistance is a **system** that supports indigenous processes so that outside aid will be unnecessary (Anderson et al, 2012).*
>
> *The three principles of participation, ownership and sustainability are interlinked cornerstones of good practice and effective development, or peacebuilding (ibid).*

6.3 Limited transparency

It is important that governments and public bodies establish procedures to respond to unsolicited social impact bond projects when intermediary organisations propose new projects to increase market share and/or diversify their activities. This is similar to the practice of permitting unsolicited PPP infrastructure projects in US and Australia.

Project abstracts for the New York State and Massachusetts Pay-for-Success recidivism projects, which received US Department of Labor grants, redacted the names of investors. The Massachusetts abstract went further and redacted the name of the intermediary and a summary of the economic model that identified the expected cost savings. The Department of Labor used Part 230, Regulation D, Rules Covering the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933. The Massachusetts contract was eventually released under state regulations (State of Massachusetts, 2014).

The use of financial market regulations to restrict the disclosure of key information relating to public service projects that are ultimately financed by public money raises key transparency issues. Similar regulations may apply in other countries.

6.4 Corporatisation of non-profit organisations

The threat of the corporatisation of the non-profit sector is real:

The emphasis on sustainability, efficiency, and market share has the potential to endanger the most basic value of the nonprofit sector — the availability of "free space" within the society for people to freely invent solutions to social problems and to serve the public good. Transferring market language and market concepts to the nonprofit sector without adapting those concepts to include the value of participation and engagement endangers the core transformational purpose of the sector and reduces it to a transactional marketplace (W.K. Kellogg Foundation, 2003)

The participation of voluntary service organisations (VSGs) as sponsors or contractors in the emerging social investment market and the use of social impact bonds provides an additional opportunity to identify with so-called service innovation, and to diversify and consolidate their role in the outsourcing of public services. The social investment market extends the financialisation, personalisation, marketisation and privatisation of public services to activities and functions previously considered not politically acceptable for outsourcing and privatisation.

Just as government promotion of social enterprises has led to a mushrooming of advisers and consultants, a market is growing with the expansion of social investment projects.

The National Coalition for Independent Action (NCIA) Inquiry into the Future of Voluntary Services concluded:

Through these moves some VSGs are now engaging with the 'social investment market' intended to replace public funding for public services, through the use of financial instruments such as payment by results and social impact bonds. This has been accompanied by, and further encouraged, the rise of the new 'social entrepreneur' – a cadre of managers and owners who are happily complicit with the expansion of the 'financialisation' and 'marketisation' of human need. Despite considerable sums of public money being committed to assist this shift, including currently £600 million via Big Society Capital, results are poor. The vast bulk of social enterprises that attract private finance do so by entering into debt commitments with private investors, whilst continuing to rely on public sector finance both to provide the contracted service and repay their investors. These developments sound an echo of the disastrous financial consequences for the public purse of the Private Finance Initiative programme (NCIA, 2015).

7 EMPLOYMENT IMPACT

This section examines the employment impact of social impact bond projects. Austerity policies caused mass unemployment, imposed cuts in public spending, wage cuts and freezes and the growth of precarious employment with zero-hour and temporary contracts. Increased outsourcing and privatisation have driven down wages and created a market with a more diverse range of employers.

7.1 JOBS – THE FORGOTTEN IMPACT

There are few references to jobs, terms and conditions for staff either displaced by, or employed in, organisations delivering social impact bonds projects. This appears to indicate a disregard for public employees affected by impact investing since they face transfer to a non-profit employer with average wages and benefits significantly lower than those in the public sector, or redundancy. Economic, social and equality impact assessments of social impact bond projects are absent.

Social impact bond literature has virtually ignored the employment consequences of projects and the privatisation of service delivery and some commissioning functions. The lack of employment data was further investigated using a sample of project literature and reports of 13 social impact Bond projects (4 in UK, 5 USA, and one each in Australia, Belgium and Canada) to identify references to the staff employed in project delivery. Only two references to 'employment', 'staff' and 'workers' were found.

The first reference was contained in the review of the Peterborough Prison social impact bond project, which revealed that the One Service, responsible for service delivery, employed seven full-time staff, three part-time and 56 volunteers in the prison and the community (Table 7).

TABLE 7: STAFFING LEVEL IN PETERBOROUGH PRISON SIB

Employees and volunteers	Employed staff		Volunteers in prison & community
	Full time	Part-time	
Case workers – St Giles Trust	6	0	0
Volunteers trained and managed by Sova	0	0	50
Volunteers – on probation or experience of criminal justice system – St Giles Trust	0	0	6
Family specialist practitioners - Ormiston Children and Families Trust	0	2	0
Recovery workers - Mind	0	1	0
Construction skills course trainer – John Laing Training	1	0	0
Total	**7**	**3**	**56**

Source: Disley and Rubin, 2014.

A report on the lessons learned from the planning and early implementation of the Peterborough Prison SIB contained an appendix with the following statement:

> *"The St Giles Trust team is made up of paid staff, volunteers within the prison and volunteers in the community. The volunteers within the prison are usually prisoners serving longer sentences that are undertaking, or have completed, a NVQ at Level 3 in Advice and Guidance. The role of these volunteers is to advise and support offenders, encourage them to access services and support while in prison, and to follow up on any missed appointments. The use of volunteers within the prison ensures that St Giles Trust has access to offenders throughout the prison" (Disley et al, 2011).*

The second review of the Peterborough Prison social impact bond project noted that the original plan called for distinct roles of employees and volunteers, but this had changed after the first year of the project. Volunteers worked alongside full/part time caseworkers, which allowed them to focus on the more complex with volunteers on the less complex caseload:

> *Lay volunteers, managed and trained by Sova, were an important resource and were viewed positively by a range of interviewees. They provided staff capacity by working with lower risk cases, allowing caseworkers to focus on more complex cases. Some volunteers also brought specialist skills, for example, legal expertise or knowledge of debt and finance (Disley and Rubin, 2014).*

The second reference was in a project summary of the Cuyahoga County, Ohio, family support social impact bond which made reference to *"…hire and train key staff for project implementation"* (Pay-For-Success Learning Hub (2015b).

Further evidence was sought from the UK Cabinet Office Knowledge Hub and the US Pay-For-Success Learning Hub for references to employment in thirteen social impact bonds, but no information was available on:

- The number of jobs created by the social impact bond project;
- The number of staff transferred or made redundant from public organisations;
- The number of volunteers engaged in service delivery;
- The terms and conditions of staff engaged in project management and delivery;
- Whether staff are in pension schemes;
- Trade union recognition and industrial relations frameworks.

The Youth Custody project cited in Part 4 engaged staff in reviewing progress to meet the targets and their practice and participated in workshops and interviews in the evaluation of the project (Wong et al, 2015).

A survey of potential investors in financing US Pay-for-Success projects concluded:

> *Investors wanted to understand the underlying source of the government cost savings. While investors are relatively comfortable with cost savings that result from lower capital costs (e.g., through more efficient construction), the fact that much of the SIB cost savings could result from lower or outsourced personnel costs raised concerns about this aspect of political risk (Godeke Consulting, 2012)*

Transfer and redundancy

The European Union and several other countries have similar legislation to protect jobs, terms and conditions when services are outsourced or privatised. A transfer of staff to the new employer is dependent on an 'economic entity' being transferred and the continuation of service delivery by the new employer. If a new service is planned that is significantly different from the existing service, then the impact on jobs, terms and conditions will vary depending on employment legislation. A 'new' service situation allows social impact bond contractors to use their existing and newly recruited staff to deliver services.

7.2 Non-profit employment in context

Although the non-profit sector contributes an average 5% of Gross Domestic Product in several industrialised countries and between 2.6% – 11.5% of national employment, the average wage in the sector is 20% - 30% less than the national average wage, let alone the equivalent public sector wage (Table 8). The limited evidence points to relatively high levels of temporary staff and only about half of staff in a pension scheme. Trade union representation is also significantly lower in the non-profit sector compared to the public sector.

TABLE 8: NON-PROFIT SECTOR IN CONTEXT

Country	Non-Profit % of Gross Domestic Product	Non-profit % national employment	Average non-profit wage as % of national average wage	% trade union members or covered by collective agreement	% temporary employment	% of staff with pension provision
UK	(GVA) [1]0.9	[1]2.6	[1]78.2	[1]17.0	[1]11.0	n/a
USA	[2]5.4	[2]10.6	[3]71.5	n/a	n/a	[4]57.0
Canada	6.9	10.0	[5]69.0	[5]20.9	[5]14.3	[5]45.3
Australia	[6]4.1	[6]8.5	[6]50.0-80.0	n/a	[6]24.3	n/a
Belgium	[7]5.1	[7]11.5	n/a	n/a	n/a	n/a
Portugal	[8]2.0	[8]4.3	[8]78.7	n/a	n/a	n/a

Sources: 1. Skills Third Sector, 2013; 2. Urban Institute, 2014 and Urban Institute Nonprofit Almanac 2012; 3. United States Department of Labor, Bureau of Labour Statistics, 2014; 4. Center for Nonprofit Management, 2014; 5. HR Council for the Non-Profit Sector, 2008 and 2013; 6. Australian Government Productivity Commission, 2010; 7. Salamon et al, 2013; 8. Salamon et al, 2012;

SOCIAL ENTERPRISE AND CHARITY EMPLOYERS

Voluntary organisations and social enterprises often value a commitment to 'social change' and 'doing good' more highly than good quality terms and conditions for their employees. Similarly, impact investing is focused on securing profit for private investors, yet appears to be unconcerned about the terms and conditions of the staff they employ to deliver services.

7.3 EMPLOYMENT SCENARIOS

The continued growth in social impact bond and pay-for-success projects could lead to four possible scenarios:

The growth in private and non-profit employment: Nationally, this is currently a slow process, which could increase if the rate of new projects accelerated, together with a significant scaling-up of their scope. 'Labour flexibility' is a consequence of commercialisation and the contract culture. The transfer of public services to social enterprises is simply a transfer of employment from the public sector to the non-profit sector. It is a zero-sum gain and privatisation.

Contractual conflicts: The continued increase and widening scope of UK public service outsourcing could eventually lead to conflicts of interest between commissioners and contractors and with the investors, intermediaries and contractors seeking new social bond projects.

Reconfiguring and decommissioning services: In theory, the more effective early intervention and prevention becomes, the need for facilities such as children's homes and prisons should decline in size, if not in number. This may not lead a reduction in employment, but a change in roles and job descriptions. The question is not whether reconfiguration of public services is necessary, but the speed at which it takes place, how it is planned, phased and resourced with strategies in place to support service users and employees including (re)training and redeployment. There is also a conflict between large-scale early intervention *"…to enable the decommissioning of services to ensure future cashable savings are achieved"* (Allen, 2011) and the need to continue provision of core services and finance the transition period.

Impact of investor demands, procurement and contract culture: These impacts are almost certain to lead to a downward pressure on terms and conditions for most, if not all, employees in social impact bond projects. The scaling-up of social impact bond projects could lead to a type of 'whole service' provision (Whitfield, 2014c), hence the economic impact is likely to be more significant than the outsourcing of certain functions.

The scenarios will incur public costs and other impacts, which should be considered an integral cost of the implementation of social impact bonds.

7.4 Labour costs in savings forecasts

The valuation of outcomes are partially monetised with labour market earnings (see Part 4). Average earnings were estimated per person for each year between 18-65 years for the total population and four levels of educational attainment in England and Wales derived from the 2010 Labour Force Survey (Social Research Unit, 2013). The model uses a 2% average annual growth rate in real earnings drawing on Office for National Statistics (ONS) data. This was applied to all educational groups because the model does not provide separate estimates. The model uses an annual ratio of benefits to wages and salaries of 1.21 (employers' social contributions form 21% of employee benefits and earnings (ibid).

However, if the recent significant changes in the labour market continue, then the above forecasts may not reflect the reality of labour market conditions, for example:

- Wage cuts and restraint has continued since 2010 and UK austerity polices are set to continue until 2019/2020 (HM Treasury, 2015).
- The government is committed to continued implementation of flexible labour market policies, which have resulted in low wage strategies, a rapid rise in zero hour and temporary contracts and part-time work (Office for National Statistics, 2015a and Trades Union Congress, 2015).
- There is a growing gap between increasing the labour productivity index and the real wage index in G20 countries revealing that capital captured the bulk of the benefits of increased productivity between 1999-2013 (International Labour Organisation, 2015).
- UK unemployment has decreased from its national peak in 2011, but remains relatively high at 1.83m in March 2015, particularly in regions and local authorities where early childhood development is most needed (Office for National Statistics, 2015b).
- The UK's Working Tax Credit lifts many families out of poverty, but the £21bn annual programme increasingly subsidises private and public sector employers' low wage policies (Whitfield, 2014b and HM Revenue & Customs, 2014). The government announced major reduction and reform of the tax credit system in the Summer Budget 2015 (HM Treasury, 2015).

Consequently, the valuation of outcomes and labour market earnings could be overstated and ultimately distort cost benefit analysis.

Furthermore, cost benefit analyses have not taken account of the employment impact of non-profit and voluntary sector organisation delivery of social impact bond programmes, in particular the transfer, redeployment or redundancy of public sector staff and the public sector and non-profit/voluntary sector difference in pay and conditions (Pro Bono Economics and Frontier Economics, 2010 and Greater London Authority, 2011).

Growth in the number of contracts with wage rates that are over 20% lower than the national average wage, will ultimately have a negative impact on average wage rates. The gap between public sector and private/non-profit terms and conditions will widen. This is not simply about differential wage rates because there is also the matter of significantly lower pension provision, health and safety practice, trade union recognition, industrial relations frameworks and workforce development policies.

The growth of social impact bonds and pay-for-success projects in combination with neoliberalism, fiscal conservatism and austerity policies will further destabilise public services and the welfare state.

7.5 Importance of a quality workforce

The above evidence contrasts strongly with the recommendation of the Early Intervention Review for the UK government (Allen, 2011).

> *Workforce development will remain critical – in early education for example, evidence clearly shows that quality matters to child outcomes and narrowing the gap in learning and development. Children's centre leaders and staff (particularly those working in early education and in outreach and family support) need to be well qualified and well supervised, and to have opportunities to develop skills that enable them to use evidence-based approaches. The UK Effective Provision of Pre-School Education study has shown*

the strong relationship between the quality of early childcare and outcomes, and all this especially more so for disadvantaged groups.

The quality of the workforce is often an issue for specific programmes as well. Trained nurses, midwives and health visitors are needed for the FNP [Family Nurse Partnership], and attempts to use less qualified staff have resulted in weaker improvements.

A workforce development framework could establish training and salary structures which recognise the challenge and importance of early years staff and especially staff engaging with multi-problem families. Training in parent engagement would also be appropriate.

… we need to ensure we have a large enough workforce for the future to provide the programmes and offer childcare provision. We need to find a way to make the vocation attractive to more highly qualified candidates and we need to be encouraging schools, colleges and universities to be teaching and developing resources for the future (ibid).

8 Public service innovation and improvement

8.1 Government and public sector innovation

The state has played an important role in funding, supporting and developing innovation in industry and public services. For example, in the development of computers (such as, Apple), the Internet, biotechnology, green technology, pharmaceuticals, aeronautical and space industries and even in research and development in the nineteenth century (Mazzacuto, 2013). This is mirrored by public bodies that have designed and implemented a wide range of innovative strategies in economic development, transport, education, health and social care for many decades. Some innovation has been rooted in meeting social needs, but other innovation has been at the behest of finance capital, transnational companies and/or conservative political objectives.

The qualitative record of public sector innovation is in sharp contrast to the image that social finance and impact investment organisations portray, which implies that *they* are the only genuine source of innovation. This same narrow view promoted the transfer and privatisation of public services, created new vested interests and further embedded neoliberal ideology. Social enterprises and non-profit organisations can be innovative, but they never have, nor will have, a monopoly on innovation.

In practice, much public service innovation has been generated by public bodies; tenants and community organisation proposals for policy, design and service delivery changes; staff and trade union proposals; NGOs, think tanks, voluntary organisations and social enterprises; and by research and development projects. Innovation and improvement have always been an integral part of the public sector agenda, although too frequently blocked by those seeking to maintain the status quo.

The social impact bond literature claims this funding model and non-profit organisations have the freedom to innovate in contrast to public bodies, which often are risk averse and sometimes slower to innovate. But the stereotypes should be challenged. The public sector's position is contradictory. It is often more cautious in adopting innovation because of political and/or professional conservatism in allocating resources to unproven policies or projects. But that has not stopped the UK government spending nearly £520m in the last few years funding social enterprises and social impact bonds, which are certainly unproven. It did not prevent recent UK governments funding a large national programme of academies and free schools that continue to have limited performance and created a fractured public education service. Governments have been very responsive to radical change demanded by business and calls to extend neoliberalism.

> *Given that a simpler version of these arrangements might be less expensive, perhaps governments will just do this work themselves using the expertise developed in this process…….Then more of the savings to government could go to serve other social need rather than to investors or transaction costs (Clara Miller, President, F.B. Heron Foundation, 2015).*

The question is whether social impact bonds are *"…the best way to achieve the intended results, or are there simpler, more efficient and perhaps even more effective ways to finance programs that realize the social benefit and the cashable savings?"* (Demel, 2012). The answer surely lies in increasing tax revenue to enable the public sector to widen investment in effective early intervention and prevention and to reduce poverty and inequality.

A four-part strategy is required:

1. An alternative vision of public services that provide early intervention and prevention, good quality integrated core services and multi-purpose use of public buildings.
2. Public Service Innovation and Improvement Plans at departmental or service level.
3. Agreements with government and public bodies not to propose or approve social and development impact bond/pay-for-success projects.
4. Action strategies to build alliances of staff/trade unions, service users/community organisations and other campaigns to organise support for strategies and scope for transnational action.

Each strategy is discussed in more detail.

8.2 Alternative vision of public services

A vision for public services and the welfare state should combine provision of early intervention and prevention policies, integrated good quality core services and, where necessary, multi-service use of public facilities. It is vital to set out the means to increase resistance to neoliberal policies with alternatives that contribute towards a wider longer-term strategy, although this study can only set out its broad direction. These plans could contribute to a broader challenge of the role of private capital, market forces and neoliberalism in public services and the welfare state.

A ten-part public service policy framework sets out policies around which to organise and challenge the continued financialising, personalising, marketising and privatising of public services. It is a starting point that should be developed and extended as part of a wider economic strategy.

- Early intervention and prevention
- Democratisation of public services
- Innovation and improvement
- New public service management
- Social justice and reducing inequalities
- Cost benefit and impact assessment
- Progressive taxation
- Public ownership and investment
- Good quality jobs
- Public service principles and values

The ten elements are summarised below:

Early intervention and prevention strategies: Governments and public bodies should incorporate plans for early intervention and prevention in policy and strategic plans alongside the reconfiguration of core services, and where necessary, develop proposals to amend/change the use of facilities. Policies should be prepared for children's' services, education, health and social care, housing and justice and re-allocate resources to tackle poverty and gender, race, disability and age inequalities.

Democratisation of public services: Improved governance and accountability of public bodies including the termination of, or radically new governance structures, for arms length bodies, joint venture and partnerships, together with the participation of service users, community organisations, staff and trade unions in the planning and provision of services and facilities. This should include the democratisation of service planning, rigorous monitoring and scrutiny of procurement and contracts.

Innovation and improvement: Every public service should have a *Service Innovation and Improvement Plan* which sets out how early intervention and prevention policies will be implemented to increase the sustainability, equity and quality of services to meet social needs. They should be reviewed and renewed every three years (see Table 9). Public bodies should be required to take immediate steps to involve staff and trade unions in the reconfiguration of services and to draw on their ideas, experience and innovation. Public bodies would have an agreed protocol detailing the participation, monitoring and review processes.

New public service management: Public service management should replace neoliberal public management, terminate the flawed divide between purchaser and provider of public services and remove the wasteful competition and contract culture. Public service capability to design, plan, finance, deliver and manage projects and services must be consolidated in direct provision, with democratic governance, public planning and investment, quality management practice, new innovation and improvement strategies and flexible and accountable organisational structures at its centre (Whitfield, 2012a). The new approach would begin to dismantle the public sector outsourcing market as direct provision removes the need for procurement of core and support services.

Social justice and reducing inequalities: Equality impact assessments are essential to assess the effect of policies and projects on citizens, service users, staff, communities and local economies. Social justice should include the distribution of opportunities locally and nationally, redistribution and improving life chances, reducing inequalities, eliminating discrimination, improving quality of life and community well-being and ensuring participation in the policy making process and service delivery.

Cost benefit analysis combined with economic, social, equalities and environmental impact assessment: Key policies and projects should be assessed for local, regional and national economic, social and environmental impact, which should engage community organisations and trade unions with the findings publicly disclosed. Re-regulation should include new labour and equality rights.

Progressive taxation: Taxation should be the prime revenue source to fund public services and the welfare state with a progressive tax system to redistribute income and wealth, reduce poverty and inequality, with the percentage tax rate increasing as income rises. Equally important, a progressive approach is needed for the scope and rates of other forms of taxation such as national insurance, VAT or sales taxes, excise and other levies, accompanied by measures to tackle tax avoidance and evasion.

Public ownership and investment: Increased public expenditure on early intervention and prevention strategies, public sector workforce training, research and development, improving the public infrastructure and providing good quality employment has large economic and social benefits. Collective ownership models should be promoted in industrial and business services sectors.

Good quality jobs: There is significant evidence of the connection between the quality of service and the quality of employment and staff engagement in the planning and delivery of services. Workforce development programmes should seek to improve the quality of services and the terms and conditions for staff (cutting zero-hour and temporary jobs and increasing pay for those below living wage rates and improving access to pension schemes).

Public service principles and values: Public service principles should be mainstreamed in all services and functions and focus on the quality of inputs, processes, outputs and outcomes - they will vary according to the service, function and investment undertaken, but all are relevant to the quality of service and/or facilities (Whitfield, 2014b). Their application ultimately reflects the degree of commitment to tackling the root causes of poverty and inequalities.

8.3 Public services innovation and improvement plans

The preparation of *Public Service Innovation and Improvement Plans* has a vital role in interventions to oppose social impact bonds/pay-for-success and other forms of privatisation. Plans should be developed in one of two ways. Firstly, by public bodies involving staff/trade unions and service users/community organisations. Secondly, jointly by staff/trade unions and service users/community organisations to demand a public body adopts a new approach to innovation and improvement.

A strong relationship has been established between a high level of employee engagement and patient-centred care, quality and safety outcomes, patient satisfaction and improved productivity in health and social care. In addition, research studies have evidenced the relationship between the quality of employment and the quality of service (Whitfield, 2015).

Some trade union members may argue that it is not their responsibility, rather management's job to develop alternative plans and policies. Trade union initiatives must be aware of political and managerial opportunism which takes ownership of ideas and proposals, block their progress or to exploit the situation to impose cuts, reduce staffing and/or introduce new working practices. However, a defensive, status quo position is strategically not sustainable and almost certain to have negative consequences for basic rights, terms and conditions (Whitfield, 2012a).

Table 9: Scope of Public Service Innovation and Improvement Plans

Service Innovation and Improvement Plans	
New approaches to tackling early intervention and prevention, integrated with improved core services and where opportunities arise, the multi-purpose use of public facilities.	
Scope for reconfiguration and improvement	Monitoring, reporting and scrutiny review at key stages
Objectives, principles and values	Staff and trade union participation at all stages
Social needs, priorities, demographic change, economic trends and new legislation	Identify methods and resources to reduce inequalities and discrimination
Priorities for early intervention, prevention and improvement strategies	Re-training, redeployment, staff recruitment and workforce development
Scope for service and operational integration and reconfiguration	Improved governance, accountability and transparency
New methods of service delivery and working practices	Strategy to accommodate change of use in legacy buildings and infrastructure
Public service management, capacity to manage projects and availability of technical, financial and legal support	Resources, budget pooling and investment required
Service user, citizen and community organisations participation in planning and service delivery	Summary of planned changes, targets, action strategy, timetable and responsibilities

Source: Whitfield, forthcoming.

8.4 Agreement not to propose or approve of social and development bond/pay-for-success projects

Firstly, opposition to social and development impact bond and pay-for-success projects should seek to persuade governments and public bodies to commit to direct provision of early intervention and prevention policies. The adoption of Public Service Innovation and Improvement Plans should be part of this commitment.

Secondly, they should ensure there are rigorous procedures and criteria in place to assess any proposed projects. The wide range of issues examined in this report, in particular Parts 3, 4, 5, 6 and 7 provide the basis for a comprehensive cost benefit analysis and impact assessment.

Challenge impact of social impact bond projects

- Build an evidence base and local and national information about operational and planned social impact bond and pay-for-success projects. It should include performance, failures, investors and profits and the public cost of subsidies and guarantees. Share this information internationally.
- Challenge public expenditure savings claims because they are usually exaggerated, rarely achieved and not inclusive of all the public costs.
- Explain the potential future consequences of another private 'buy now-pay later' scheme.
- Detail the risks and consequences for users, community organisations, staff and government/public bodies.
- Expose the threat to jobs, terms and conditions and workforce development.
- Detail the impact of social impact bond projects on public services and welfare state and the effect on democratic accountability, participation and transparency.
- Demand a full and transparent comparison with an in-house public sector innovation and improvement model when social impact bond projects are proposed.
- Ensure the employment impacts of innovation and improvement initiatives are assessed and public sector pay and conditions maintained.

Organise in the workplace and community

- A survey of potential users provides useful information and simultaneously obtain their views about social impact bonds and privatisation of core public services.
- Prepare briefings and articles to explain the consequences of social impact bonds, their costs and impact for service users, staff and public services.

- Recruit and organise in the community and workplace with specific strategies targeted to organisations who engage volunteers and interns.
- Combine national and local organising and action with critical analysis of social impact bonds to advance these policies.

Challenge the vested interests of business organisations and political allies

- Expose the 'social investment' front of big banks and wealthy private investors when in fact it is private investment.
- Raise the ethical issues concerning private investment to profit from social needs.
- Highlight the potential scale of profiteering by private investors and contractors.

Box 6: Transparency requirements for social impact bond proposals

Social impact bond projects are, irrespective of initial investor funding, ultimately financed by government. The following information should be disclosed for public debate and scrutiny and is an essential prerequisite for democratic accountability and basic consultation rights:

- Proposals for social impact bond projects.
- Demand full community and trade union involvement and transparency.
- Development of in-house innovation and improvement plan and options appraisal.
- Report of evaluation of project proposals.
- Disclosure of bidders and investors prior to or during the procurement process.
- Ensure contracts give the public sector the power to amend or terminate projects and contracts do not include non-competitive clauses.
- Evaluation methodology and criteria.
- Report of contract award.
- Publication of contracts.
- Performance monitoring reports.
- Interim audit or review reports.
- Disclosure of final project report including calculation of payments to investors.

8.5 Alliances for public sector innovation and investment

It is vital to develop a vision for the future of public services and welfare state that draws together ways in which the public service principles can be implemented to meet social needs, democratic accountability and to tackle poverty and inequalities (Whitfield, 2014b). The ten-part strategy outlined above provides a starting point.

The concept of the Public Service Innovation and Improvement Plan is intended to be useful to develop a public sector option where social impact bond projects are planned. It can also be used locally to increase the focus on early intervention and prevention.

Scope for transnational action

Social impact bond projects should be opposed nationally and internationally through research, evidence sharing and building alliances.

The impact investing lobby make the same case irrespective of location, promote the same model with similar conditions and make the same assertions about public expenditure savings. Many of the intermediary organisations, philanthrocapitalists and financial institutions involved in advancing the social and development bond model operate internationally. So there is a strong case for international trade union action to coordinate opposition to social and development impact bond and pay-for-success projects, and to share information, evidence, lessons learnt and undertake joint research. Transnational action should also include targeted organising campaigns, expose of the role of private investors and to develop alternative public sector strategies.

Action strategies

Develop early intervention and preventative policies and plans

- Make the case for in-house public sector innovation and improvement to pre-empt the case for social impact bonds and develop best practice public service management.
- Make the case for integrated public services and oppose further marketisation and privatisation.
- Ensure public bodies prepare in-house public service innovation and improvement plans centred on early intervention and prevention strategies.

Intervene in the 'transformation' of services

- Public bodies should have an agreed protocol for supporting, evaluating and responding to proposals and a mechanism where implementation or pilot projects can be fast-tracked.
- A full social and economic case for change should replace the limited 'business case'. It will often involve a degree of joint working with other public bodies and with community, voluntary or non-profit organisations.
- A comprehensive and rigorous economic, social and equality impact assessment should be undertaken for policies and projects with the findings publicly disclosed.
- Service users and community organisations and staff/trade unions should be involved in the planning and implementation of innovation and improvement strategies.
- Options appraisals must include a forward looking public sector innovative and improvement option.
- Protocols should be in place to fully evaluate and consider proposals from community organisations and trade unions for early intervention and preventative strategies

Forge coalitions and organise public service alliances

- Build alliances of community, trade union, civil society and political organisations to make the case for direct public sector investment and provision of early intervention and prevention policies and good quality integrated core services.
- Ensure that community organisations, trade unions, MPs, elected members and the public are fully informed about the local and wider effects of social impact bond projects.
- Set out why and how accountability, participation and transparency of public bodies can be radically improved.

Organise industrial, civil and community action

- Organise joint public action against austerity, outsourcing and privatisation policies.
- Use selective industrial and/or community action to increase pressure at key stages.

These strategies have a vital role in advancing innovation and improvement in the public sector and challenging the promotion of social impact bond projects.

KEY LESSONS

Social impact bond projects represent a further stage in the financialisation, marketisation and privatisation of public services and welfare state.

Social impact bond projects give the impression they are tackling the root causes of poverty and inequality. This is rarely the case and should be evidenced at an early stage.

Although the structure of the project may be innovative, the services and delivery methods are rarely innovative. Private investors want proven services-based evidenced results to minimise risk.

The transfer of risk to private investors is a gross simplification of reality, because risks are borne by the government or public body, service users, staff, the intermediary, contractors and the evaluator.

The obsessive focus on outcomes marginalises the quality of inputs and processes (and outputs in some cases), which are proven key aspects of public service quality.

Financialising and monetising of welfare state services and initiatives impose financial values on people's lives, life chances and well being. They can only be assessed through comprehensive cost benefit analysis, inclusive of economic, social, equalities and environmental impact assessment.

A secondary market is likely to emerge to allow private investors to trade investments enabling further scope for profiteering, the transfer of financial assets offshore and potentially leading to the creation of new financial derivatives to attract new tranches of private investors and/or increase profits.

Public sector savings are a regular justification for social impact bond projects. However, savings targets from outsourcing have rarely been achieved, and the full public sector costs remain illusory in most public bodies. Analysis must include the public cost of grants, subsidies, tax relief and guarantees.

The rapid spread of social impact bond projects undermine the claims of evidence-based policy making, because they have been heavily promoted and copied without any substantive evidence. The first projects in the UK and US failed.

Pilot projects should be precisely what they are intended to be - limited in scale and subjected to rigorous analysis and challenge to determine whether they are appropriate, effective, viable and sustainable before decisions are made on rejecting or mainstreaming as public policy.

Social impact bond projects are a product of the New Labour era, promoted by social financiers, supported by the G8 group of countries through the UK Conservative Prime Minister, to become integrated in austerity policies and neoliberal ideology.

A democratic deficit is built into social impact bond projects from the outset. No part of the delivery structure – the intermediary organisation, contractors, consultants, lawyers and evaluator – is democratically accountable; service user and staff participation has been minimal; and transparency is eroded because the companies and social enterprises are excluded from freedom of information legislation.

The social impact bond structure has been designed to provide a new 'social economy' market for social finance and social enterprises, influenced by the PFI/PPP infrastructure model, and the exclusion of public provision. 'Partnership' ideology will continue to generate new models with less and less public content until they are full privatisation.

New 'partnership' models and the delegation of public duties to non-public organisations often leads to a loss of commitment to equalities policies.

Non-profit and private sector employment terms and conditions are significantly worse than those in the public sector. The reliance of social impact bond projects on a contract culture is likely to aggravate this problem and make trade union organising even more complex.

Since Development Impact Bond projects are closely modelled on social impact bond projects, most, if not all, of the above lessons are equally applicable. With few projects operational, or at the design stage in the global south, they should be immediately terminated.

Neoliberal and austerity policies exposed the limitations of defensive strategies, the absence of ideas and proposals to radically change and improve public services and the role of the state. Social impact bond projects widen this exposure and illustrate the need for alternative public sector visions of early intervention and prevention.

Social impact bond projects bring into sharp focus how privatisation has mutated and created new ways in which services and assets can be outsourced and transferred to the private sector to create new markets. This has a profound impact on jobs, incomes, the quality of services and the way people live their lives. Trade unions and community organisations must be more proactive in advancing alternative policies and innovation to retain and improve in-house services.

An alternative strategy should consist of:

- government and public sector plans specifically to address early intervention and prevention;
- good quality integrated core services and multi purpose use of public buildings;
- Public Service Innovation and Improvement Plans at departmental or service level;
- and an agreement not to propose or approve social and development impact bond/pay-for-success projects.
- Staff/trade union and service user/community organisation alliances are essential to develop early intervention and prevention strategies and scope for transnational action.

Appendix A. Continued financialisation of infrastructure

Competition for private investment

It is important to take account of developments in social impact bond projects in the context of continued financialisation and privatisation of public infrastructure at both global and national levels. Several global, EU and national initiatives have been launched to increase infrastructure investment and widen the range of investors, in particular to engage pension funds, insurance companies and sovereign wealth funds in PPP projects.

The G20 Leaders Summit in St Petersburg in September 2013 endorsed the G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors (OECD, 2013). The eight principles were followed by reports to the G20 Brisbane Summit in November 2014 on effective approaches to implement the principles (OECD, 2014b) and what was essentially a primer on PPPs for infrastructure investment (OECD, 2014c).

The World Bank launched the Global Infrastructure Facility in October 2014 to *"…be a platform for collaboration between public and private partners to help prepare and design complex PPP infrastructure projects making them viable for new sources of long-term private capital"* in low and middle income countries (World Bank, 2014). Twenty six of the world's largest asset management and private equity firms, pension and insurance funds, commercial banks and other multilateral development institutions were present, including Citibank, HSBC, Macquarie and AXA.

The EU 2020 Project Bond Initiative was intended to reverse the recent decline in PPP transactions in trans-European transport, energy and ICT/broadband network projects, but showed a bias towards projects that would *increase the life-time of existing fossil fuel infrastructure* (Counter Balance, 2014).

The €21bn European Fund for Strategic Investment (EFSI), or Juncker Plan, is another initiative, accompanied by a European Commission list of 2,000 infrastructure projects worth €1.3 trillion. The funding consists of €16bn guarantees plus €5bn from the European Investment Bank, which is forecast to attract leverage 15 times greater leading to a €315bn boost to the European economy. The EIB contribution is not new money, but recycled from research budgets.

However, the EFSI *"…is not bond driven, as in the Juncker commitment to the European Parliament in July last year, but a PFI private finance initiative. These are notorious for seeking public guarantees and then costing more than direct public finance"* (Holland, 2015). Furthermore, the European Commission recommended the leverage be reduced to five but *"…but, without public co-finance, this also is improbable"* (ibid). The EFSI was launched in July 2015 with the funding and forecasts unchanged (European Investment Bank, 2015).

The UK government sought to increase pension fund investment in infrastructure through a Pensions Infrastructure Platform (PIP) since 2011. The investment target was £2bn, but by February 2015 the PIP had committed about £450m (€600m) of which £255m (€340m) had been invested in operational PPP projects and only £170m (€225m) in new projects. Three of the original ten pension funds had withdrawn by early 2014.

Pension funds targeted for PPPs

The search for new sources of investment is likely to involve persuading pension funds to increase their investment in PPP infrastructure projects. This could expose further contradictions and conflicts placing pension fund assets (deferred wages) at the centre of a strategy of commodifying and financialising early child development, health prevention and other welfare state policies in addition to public infrastructure.

There are common themes in these initiatives. Firstly, recognition of constraints on public sector capital expenditure, but a willingness to commit future revenue budgets with significantly higher contractual debt payments than the cost of repayments with public investment.

Secondly, recognition that continuing private finance of infrastructure can only succeed if pension funds, insurance companies, sovereign wealth funds and other institutional investors are drawn into financing projects. The global finance crisis and subsequent increased regulation of banks has limited their ability to fund infrastructure projects, although these regulations will not necessarily reduce the risk of further crises.

Thirdly, reliance on PPPs as the main vehicle for implementation.

Fourthly, a secondary market in the trading of existing PFI/PPP projects diverted some investment in new infrastructure to buying and selling existing projects (Whitfield, 2010 and 2012d). By early 2015 over fifty UK PFI/PPP projects were 100% owned by infrastructure funds. The average annual return on the sale of equity in UK PPP project companies was 29% between 1998-2012, twice the 12%-15% rate of return in PPP business cases at financial close in the same period (Ibid).

A SECONDARY MARKET IN SOCIAL AND DEVELOPMENT IMPACT BOND AND PAY-FOR-SUCCESS PROJECT INVESTMENTS

A similar secondary market could emerge in social and development impact bond and pay-for-success projects to enable investors who need or want to exit their investment. Some investors may not want to wait until the end of the contract, some may be forced to sell for financial reasons and others may make strategic decisions based on performance risks. Social Finance commented on the absence of a secondary market in the first Peterborough Prison evaluation. *"…there is not yet a secondary market that would allow investors to sell on their investment"* (Disley et al, 2011). In 2013 the UK Social Stock Exchange began trading in securities and derivatives and enabled impact investors and companies to invest and raise capital.

Although it took six years between the launch of the UK PFI/PPP programme and the first secondary transaction and a further two years until the nascent market began to grow (Whitfield, 2012d), a social impact bond secondary market could emerge more quickly. A combination of the financialisation of public services through private investment, a social impact bond investment market, private investors (increasingly financial institutions) adopting risk aversion and profit maximisation strategies, could lead to a secondary market with assets increasingly held in offshore tax havens.

Finally, the Australian government launched an Asset Recycling Initiative in 2014, an attempt to incentivise privatisation to increase investment in infrastructure. States will receive 15% of the sale price of privatised assets for reinvestment in new infrastructure projects. Asset sales must be completed and construction of the new infrastructure must commence before 30 June 2019. The initiative is capped at A$5bn (€3.6bn) and forecast to support up to A$38bn (€27.4bn) of new investment (Commonwealth of Australia, 2015b).

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